BDC innovating

with clients, one on one

2003 Annual Report

Canada

BDC

Business Development Bank of Canada
Banque de développement du Canada

Our Mission

To help create and develop Canadian small and medium-sized businesses through timely and relevant financial and consulting services.

Our Vision

To make a unique and significant contribution to the success of dynamic and innovative entrepreneurship for the benefit of all Canadians.

Our Key Services

Financial services (term financing); subordinate financing; venture capital; consulting services and BDC Connex® (financial products online).

1 Chairman's Message
2 President's Message
4 Public Policy
5 Economic Background
6 Management's Discussion and Analysis
21 Management's Responsibility for Financial Information
21 Auditors' Report
22 Financial Statements
40 Corporate Governance
42 Board of Directors
43 Officers
44 Five-year Operational and Financial Summary
46 Glossary

Cedric E. Ritchie
Chairman of the Board

Chairman's Message

Looking back over the last year, there is no question that growth at the Business Development Bank of Canada was the highlight. To have achieved the $2 billion mark in authorizations for the first time in the Bank's history was truly a great accomplishment and ensured another profitable year. With a profit of $32 million the Bank will pay a dividend of $12 million to the Government of Canada. Over the last three years, BDC will have returned $43 million to its shareholder. Another milestone year begs the question—how and why?

BDC is beginning to realize the benefits of its recent growth strategies. Three years ago, the senior management team set out to broaden its base across the country. The goal was to make BDC's services as a complementary lender better known and to have these services used more widely in parts of the country, where, frankly, the Bank had not been that well-known in the past. The mission is proceeding well.

There has been steady growth in Ontario, British Columbia and Atlantic Canada. The turnaround in Nova Scotia was particularly satisfying and it shows how time, effort and perseverance can pay off. It takes about three years to see the difference but Nova Scotia proves it can be done.

BDC believes that it can continue to broaden its base. I agree. Just look at the potential in Alberta, for example. Entrepreneurs there are very dynamic and there are more of them per square mile than anywhere else in the country. BDC knows there are many small business entrepreneurs in Alberta who can benefit from a different kind of lender, geared to the needs and interests of small and medium-sized businesses. To help reach these business people, BDC has opened new branches in Calgary and Edmonton.

Much is said about BDC being there to fill the gaps. Let's remember BDC serves Canada's smaller entrepreneurs, many of whom are undercapitalized and yet can grow if they can find the financing. It's one of the important gaps BDC fills, sometimes alone and sometimes in partnership with other financial institutions, but the important point is that there is a need. There is also a need for BDC's consulting service, which small and medium-sized businesses can both use and afford. In fact, I believe if BDC didn't exist the Government of Canada would have to invent it.

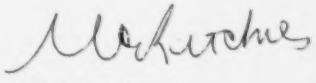
There are many small businesses across Canada that need a longer term lender. A majority of Canadian financial institutions do not offer 15-year commercial loans. BDC does. BDC recognizes the value of high-tech and knowledge-based industries, which have few tangible assets. BDC understands the necessity of taking risks on start-up companies.

Another important role BDC plays is in venture capital, where there is a definite shortage of investment money for small businesses and start-ups. It is vital for BDC to fill this gap. It is important for the Canadian economy.

Now, clearly, this was not a good year for Venture Capital. Let's not forget that, by definition, it's a risky business that cannot be judged fairly on a yearly basis. I am confident that it's a matter of time before there is improvement and I think it is essential BDC continue its focused approach in investment in all parts of the country. It is also important that BDC continue to extend its venture capital expertise across the country.

I would like to take this opportunity to pay tribute to my colleagues on the Board. As we know, the issue of corporate governance is more important than ever to maintain the credibility of an organization. Our Board has shown itself to be dedicated to and vigilant advocates of these principles. I would also like to thank the outgoing members, Peter G. Jollymore and Roger Plamondon, for their remarkable contribution.

As Chairman of the Board and someone with a history in the private sector, I must say it takes time to get used to having only one shareholder. But I have every reason to believe the Government of Canada is pleased. BDC is fulfilling its public policy mandate. I continue to be proud to be part of it.



Cedric E. Ritchie
Chairman of the Board

Michel Vennat
President and Chief Executive Officer

President's Message

It was a remarkable year. Canadian entrepreneurs showed the world how small and medium-sized businesses can make a national economy shine. Canadian SMEs have become the spark plug for our economy. They are the reason Canada has taken the lead in economic performance among G-7 countries and why we have outperformed the U.S. economy over the last two years.

As I travel the country, I am witness to a surge of entrepreneurship in all regions, across all sectors of the economy. Indeed, businesses are starting and growing across the country. The business people who run them come from all walks of life and in many cases from all over the world. We should never underestimate the contribution of entrepreneurs who have recently come to this country with their own ideas about entrepreneurship. They have much to show us and we are grateful for the new perspective they bring. Without question, in the last year, the growth of small and medium-sized businesses helped Canada lead the way.

Commenting on the Bank's results is, of course, easy, compared to predicting what could happen in the coming year. A higher Canadian dollar, the unpredictable U.S. economy, the long-term effects of the war in Iraq and the recent SARS outbreak here in Canada all make for increased uncertainty. The excellent performance of our economy notwithstanding, we have reason to be cautious as we look forward.

Just over a year ago, Parliament renewed our mandate as a complementary lender and we work hard to fulfill that mandate. BDC often works in partnership with other financial institutions to help business people meet their needs. Increasingly, other financial institutions refer their clients to BDC. We see ourselves as an economic instrument that is there to fill the gaps.

Over the past year, BDC has innovated and we are confident our clients are the winners. Our objective was to personalize our banking by doing away with formulas as much as possible. We adopted a strategy of giving our people more time to spend with our clients so that we can be much better long-term partners in their businesses. To be closer to our clients, we have also decentralized operations. Ninety-five percent of our credit decisions are now made at the regional level.

BDC remains the only financial institution that has a consulting service across the country. We have rationalized our services so we are better able to show our clients how and when we think our consulting service can make a difference. We really do believe in flexible banking and tailor-made solutions. We know this will be particularly helpful to start-up companies. We can now better understand our clients' needs and offer faster and more flexible service. Our goal is to provide entrepreneurs with the services and products that will enable them to improve their productivity. While there are many reasons innovation is more important than ever, paramount among them is the rising Canadian dollar. Improving productivity is key to adapting to the changing landscape.

Our renewed approach has led to a 91 percent customer satisfaction rating, which is the best in the industry. Our productivity ratio is an impressive 48 percent. BDC is doing a lot of things right—we had a milestone year.

I'm proud to report BDC set a new record, hitting the $2 billion mark in authorizations. To put that in perspective, it took BDC more than 50 years to reach the $1 billion mark and only 5 years to make it to $2 billion. Our Loans sector showed a profit of $94 million. Lending authorized was 17 percent higher than last year, and last year was 13 percent better than the year before. That's 33 percent more support for small and medium-sized businesses in the last two years.

The combination of the dynamic nature of our organization and the dynamic nature of our niche market—the entrepreneur—makes for an exciting mix and terrific growth potential. Today's entrepreneurs

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are a special breed; they are better educated and more open to seeking opportunity globally. They see the world not as a challenge but as an opportunity and they know that low interest rates, lower taxes and freer trade give them a better chance to excel and compete globally.

The quality of our client base has remained strong. Client credit has held up well in this environment. The return on common equity from Loans and Consulting Group was a solid 16 percent, permitting us to continue to be even more active in start-ups, which is the more risky part of our business. BDC will continue to take more risk progressively. That's our mandate and we take it seriously.

BDC showed an overall profit in fiscal 2003 of $32 million and declared a dividend of $12 million to our shareholder, the Government of Canada. Obviously the bottom line would have been much better had it not been for a $59.5 million loss in Venture Capital. It was a difficult year in a difficult environment.

Technology markets suffered for a second year in a row and we had to take a lot of write-downs in the value of investments. However, despite this year's losses, our 10-year internal rate of return on total investments is 16 percent in fiscal 2003, which is still an above-average performance.

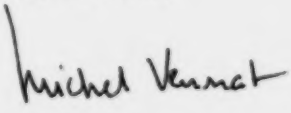
BDC, as a recognized leader in venture capital, is even more important in difficult times. That role was recognized in the February budget when the federal government allocated $190 million to BDC, earmarked for venture capital investment. BDC expects its venture capital investments to be approximately $100 million a year over the next four years.

I am encouraged that employees in all sectors of the Bank are engaged, enthusiastic and effective. Employee engagement surveys are taken very seriously at BDC. If employees are as motivated as they are, it is because they know someone is listening. Members of the senior management team deserve full credit for creating and encouraging that openness with employees. They know, as I do, that it's just good business.

Overall, we feel good about the year we've had and we are hopeful we can sustain our momentum and continue to move forward despite the economic challenges we face this year. The financial services landscape will continue to change and there will continue to be gaps. More than ever, BDC will be needed to fill those gaps.

The optimism and the enthusiasm of small and medium-sized businesses are helping Canada meet the challenges of a world economy, which has become unpredictable due to momentous international change. To be frank, a lot of things can happen and a lot of things can go wrong that could have a negative impact on our economy, but at least we know we will face an uncertain world from a position of new strength.

With the changes BDC has made in the past year it is far better equipped to respond to local and regional needs and I see more, not less, demand for our services in the future. We will be there for our clients. We will be there for the Canadian economy.



Michel Vennat
President and Chief Executive Officer

Public Policy

The Business Development Bank of Canada will celebrate its 60th birthday next year with the distinction of being the only bank in Canada that focuses exclusively on small and medium-sized businesses. BDC's mission is to help create and develop small and medium-sized business through timely and relevant financial and consulting services. BDC's role is to help Canadian entrepreneurs become more successful so they can create more wealth and more jobs in every region of the country.

Through its Loans unit (Loans), BDC has, in the last five years, almost doubled its loan authorizations, which is an indication of the gaps BDC is filling in the marketplace. These gaps were identified by Parliament in 1995 when it approved a new mandate for the Crown corporation, namely in regard to risk, flexibility, size and knowledge gaps. As a result BDC provides high-risk financing, offering flexible terms and conditions for small and medium-sized businesses as well as financing for knowledge-based industries. Just over a year ago Parliament renewed BDC's mandate as a complementary lender. BDC continues to work hand in hand with other financial institutions in the interests of Canadian entrepreneurs.

In offering these services BDC fulfills another mandate from Parliament. It earns a profit and has the objective of earning a return on common equity that is at least equal to the government's long-term cost of funds. This year the Bank declared a dividend of $12.2 million to the Government of Canada. Profit was $32 million while the return on common equity was 2.7 percent.

BDC is appropriately capitalized with total assets of close to $8 billion. The Bank has over 1,250 employees and more than 80 branches. The Bank serves more than 21,000 Canadian small and medium-sized businesses and 35 to 40 percent of them are in non-metropolitan areas. Close to 70 percent of loans authorized are under $250,000. The customer satisfaction rate is 91 percent, the best in the Canadian financial services industry.

Through its Consulting Group unit (CG), BDC is the only financial institution in the country that offers a network of consulting services throughout Canada. BDC believes that providing affordable consulting advice is key to helping entrepreneurs grow and innovate their businesses. Through its Venture Capital unit (VC), BDC is the only national financial institution with VC offices and expertise in every region of the country. Including direct investments and venture funds, the Bank now has a total of $430 million in venture capital committed to some 160 Canadian companies.

BDC not only believes in social responsibility—it practices it. Consider the environment. Loans are subject to environmental conditions being met. Clients must provide details of all environmental concerns related to each property and business activity. On request they must provide environmental assessments to ensure compliance with environmental legislation. BDC managers inspect work sites in person with an eye to identifying potential environmental risks. Where there is an environmental issue that cannot be resolved by the client, financing will not be provided.

BDC wants to help Canadian entrepreneurs prepare for implementation of the Kyoto Protocol by first and foremost encouraging clients to be energy efficient. However, the Bank's role and interest is not restricted to compliance. BDC encourages clients in the high-technology sector to develop and deliver new environmental technologies that meet the emerging compliance requirements of Canadian business.

BDC is active in communities in Canada. The Bank supports local teams and sporting events for young Canadians. This year BDC sponsored the Pan Canadian Conference of the Community Futures Network. Held in St. John's, the Conference invited 270 Community Futures Development Corporations and Community Business Development Corporations to celebrate community-based economic innovations. This fall the Bank will sponsor the International Chamber of Commerce Conference in Québec City. BDC supports Innovators Alliance, which is a not-for-profit networking organization for CEOs in the fastest-growing companies.

Over the last two years the Bank has made great strides in decentralizing decision-making. Approximately 95 percent of loans are now authorized at the regional level. This makes for quicker, more responsive solutions for clients. BDC has also created a three-region network, which, along with the virtual online branch BDC Connex®, enhances community-based services to clients.

Almost 60 years after its inception in 1944, (then under the name of *Industrial Development Bank*) the Business Development Bank of Canada (officially created in 1974) has come a very long way.

It is no longer the *Industrial Development Bank*, it is no longer the *Federal Business Development Bank* and it is certainly no longer the "bank of last resort". It is now a commercial Crown corporation offering complementary financial, investment and consulting solutions to Canadian entrepreneurs.

Those who work at BDC are proud of the contribution made to the country. They are also proud of the steady growth over the last several years. There is recognition of an important public policy role being carried out. But in addition there's the heartfelt sharing of the dreams of entrepreneurs coupled with the good business sense to help their businesses grow and prosper.

Economic Background

The past year saw many challenges in the global economic environment. Economic growth turned out to be weaker than expected in many industrialized countries. The decline in equity markets, the impacts of damaged corporate reputation in the United States and anxieties over global terrorism contributed to the level of uncertainty worldwide.

In this turbulent global situation, Canada's economic growth in 2002 exceeded most expectations. Emerging from the slowdown and unsettled environment of 2001 into a solid recovery, the Canadian economy outpaced the United States and other G7 countries in both gross domestic product (GDP) and employment growth. The Canadian economy posted strong growth of 3.4 percent in 2002, more than double the pace in 2001. In fact, the level of economic activity in Canada remains near full production capacity with a record high employment-to-population ratio, corporate profits at their highest since early 2001, and the consumer price index remaining under control at just under 2.2 percent.

Stimulated by low interest rates and record employment growth, the Canadian consumer was able to make up for ground lost in the mid-1990s. In February, the federal government tabled a fifth consecutive balanced budget, largely implementing the recommendations of the Romanow Report on the future of health care in Canada and launching an effort to meet the objectives of the Kyoto Accord.

In Canada, the number of small businesses increases by 1 to 2 percent each year. Typically, 150,000 new firms are created and 130,000 close annually. However, statistics alone do not capture the dynamic nature of small business. Small businesses are changing their primary activity or ownership in order to remain competitive, a phenomenon that will only accelerate in the future. Small businesses need to reinvent themselves more frequently because today's competitive advantage will become tomorrow's common knowledge. In addition, the importance of export-orientation in a small firm, to maintain competitive advantages in the global arena, should not be overlooked.

Economic conditions continue to improve for SMEs. Large and medium-sized businesses are doing well in adopting advanced technologies, but there is room for improvement, particularly among small, domestic-owned firms. For a small business, innovation is not just about developing new products and selling them to the world. To stay competitive, smaller firms also need to adopt other innovations from wherever in the world they originate. Recent findings of a Statistics Canada Survey of Innovation underscore the difficulty small businesses have in adopting innovation and improving productivity. The major impediments to innovation cited were lack of financing, high cost of development, lack of skilled personnel and inability to devote staff to projects on an ongoing basis.

As Canada's *small business bank*, there is a key role for BDC to play in the enhancement of innovation in small firms. BDC can be a strong contributor to Canada's innovation capacity, by being innovative, by helping entrepreneurs realize their own potential and by building on current success and entrepreneurial expertise.

Given the current economic context, it is vital for BDC to create a unique and valued relationship with Canadian entrepreneurs to support their business creation and accompany their growth. As small businesses adapt to increasing competition and technological change, not all will be able to secure private sector sources of value-added financing and consulting advice. BDC will therefore continue to complement the services of commercial financial institutions by seeking new and different forms of financing and to help entrepreneurs access and benefit from new technologies in traditional and emerging sectors.

OVERVIEW OF THE STRUCTURE OF MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis (MD&A) of operating and financial results provides Management's perspective on BDC's performance for fiscal 2003, risk management activities, and outlook for 2004.

Objectives, Measures and Targets (pages 7 and 8) provides a summary of the corporate objectives established in the annual Corporate Plan and the key performance indicators which are used to measure performance and results for fiscal 2003, and objectives for 2004. These measures are reviewed in more detail in subsequent sections of this MD&A, as shown below.

Our Clients (page 9) addresses the market needs which are being served by BDC, the diversity of our clientele, and how we help Canada's small and medium-sized businesses with faster and more flexible service. Successful performance is measured by growth and **customer satisfaction.**

Employee Commitment (page 10) provides an overview of the Bank's greatest asset—its employees. It shows how the Bank fosters a culture of employee engagement and customer service that in turn make the Bank a more efficient and cost-effective institution. The **employee commitment** rating serves as the principal performance measure.

Financial Statement Discussion (pages 11-16) provides an in-depth analysis of the balance sheet and the results presented in the statement of income (pages 22-23) with reference to the five other performance measures:

Productivity
Portfolio growth
Consulting Group revenue
Return on common equity
Venture Capital IRR

This discussion includes the contribution of each of the three business areas: Loans, Consulting Group, and Venture Capital, and explains the significant accounting policies and the effects these policies have on our results.

Integrated Risk Management (pages 17-20) summarizes the risk management activities in the organization and discusses our approach to managing credit, markets, liquidity and operational risks.

Caution Regarding Forward-Looking Statements

The MD&A that follows this page includes forward-looking statements and assumptions, based on Management's best estimates. Such statements are subject to risks and uncertainties which may cause actual results to differ materially from those estimates. Some of the factors which could cause such differences include general economic and market conditions, including interest rates and currency values, and performance of venture capital investments.

How the Bank Reports

BDC is governed by the *Business Development Bank of Canada Act* of 1995, and being a Crown corporation, by Part X of the *Financial Administration Act*.

The Bank prepares its financial statements which are presented on pages 21-39 of this report in accordance with Canadian generally accepted accounting principles (GAAP).

To finance its activities, the Bank issues debt instruments which are secured by the Government of Canada, and from time to time receives equity infusions from the Government as its sole shareholder. The Bank does not require nor receive operating appropriations of Government funds.

OBJECTIVES, MEASURES AND TARGETS

Mandate

To support Canadian entrepreneurship by providing financial and consulting services.

Corporate Objectives

To create a unique and valued relationship with Canadian entrepreneurs to support the creation of their businesses and accompany their growth (measured by client satisfaction).

To foster a culture of engagement, learning and growth (measured by employee commitment).

Establish effective and efficient processes to support local market understanding (measured by the Loans productivity ratio).

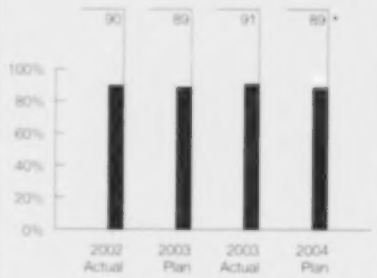
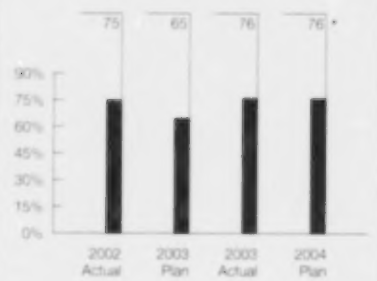
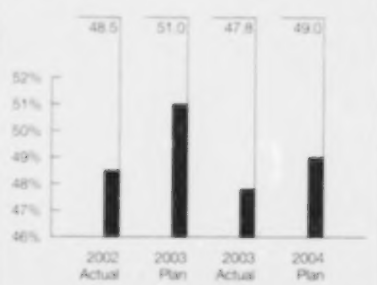
Be profitable in order to grow while fulfilling our public policy mandate (through the measures of the outstanding loan portfolio, internal rate of return (IRR) of Venture Capital, and Consulting Group revenue).

Generate a return on common equity (ROE) at least equal to the government's long-term cost of funds.

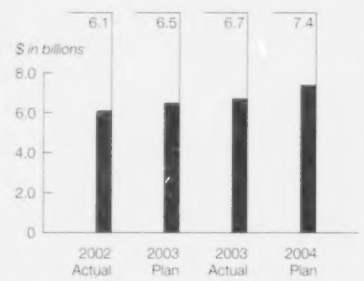
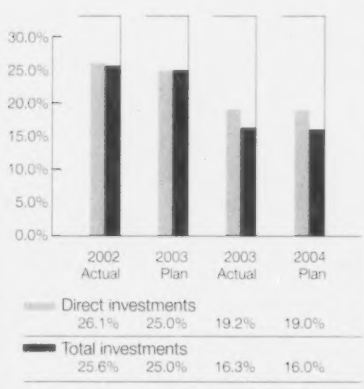
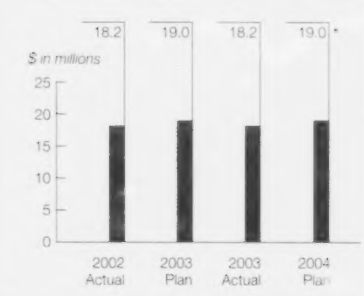
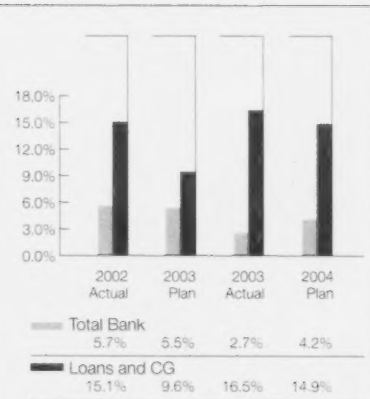
The following table illustrates how the corporate objectives are measured at BDC.

Performance Measures	2003 Objectives	2003 Performance
Client satisfaction level	89%	91%
Employee commitment level	65%	76%
Productivity ratio	51%	48%
Outstanding loan portfolio	$ 6.5 billion	$ 6.7 billion
Consulting Group revenue	$19.0 million	$18.2 million
10-year IRR	25.0%	16.3%
Return on Common Equity (ROE)	5.5%	2.7%

PERFORMANCE AND CORPORATE OBJECTIVES

Performance		2004 Objectives
Client Satisfaction • Valued relationships with the client fostered positive results in fiscal 2003: 91% of BDC clients are satisfied or very satisfied with the services offered versus 90% in fiscal 2002.		• • Client satisfaction: 86% as per Corporate Plan. This target was set before the actual 2003 results became known. Accordingly, a **new internal objective of 89%** has been set. • In fiscal 2004, we will take more risk in our portfolio and use an integrated approach which we feel may initially decrease our client satisfaction.
Employee Commitment • Results from the Employee Engagement Survey show an improvement to 76% from 75% in 2002, but it surpasses the 65% performance objective set for the year.		• • Employee commitment: 70%. This target was set before the actual 2003 results became known. Accordingly, a **new internal objective of 76%** has been set. • Enhance and develop leadership. • Foster open and honest communication. • Promote self-motivated life-long learning and career development. • Workforce diversity and differentiation in employee policies and programs.
Loans Productivity Ratio • Full integration of new processes in the Loans division, system enhancements and a sound integrated risk framework supported BDC's efficiency gains over fiscal 2003, improving from 55% just 3 years ago to 48% (the lower the ratio, the higher the productivity achieved).		• Ratio: 49% • Strive for productivity gains through ongoing refinements of internal processes, despite a projected increase of some $11 million in pension costs. • Use technology efficiently and update current technology applications.

PERFORMANCE AND CORPORATE OBJECTIVES

Performance		2004 Objectives
Outstanding Loan Portfolio A record $2 billion in net loan authorizations in fiscal 2003 supported the impressive growth in the portfolio which stood at $6.7 billion at the end of the fiscal year.		• Portfolio: $7.4 billion • Increase financing activity through solutions that fuel the innovative capacity of Canadian entrepreneurs. • Broaden the scope of subordinate financing activity to address the needs of high-growth companies, exporters, and intergenerational transfer of ownership.
Internal Rate of Return (IRR)—Venture Capital The 10-year IRR was negatively affected in 2003 by weakened financial markets, which forced $50 million in write-downs during the year. The IRR on total investments was 16.3% in 2003 versus 25.6% in 2002.		• Internal Rate of Return (IRR): Direct investments 19.0% Total investments 16.0% • Seek seed investment opportunities in new technologies. • Seek investment opportunities in the environment and life sciences such as biotechnology, genomics, medical devices, etc.
Consulting Group Revenue • Consulting Group (CG) recorded revenues of $18.2 million, slightly lower than plan but similar to levels recorded in fiscal 2002.		• CG Revenue from activities: $16.5 million as per Corporate Plan. This target was set before the actual 2003 results became known. Accordingly, a **new internal objective of $19.0 million** has been set. • Continue integration of service offering with financial services.
Return on Common Equity • ROE of 2.7% was lower than last year's 5.7% due to loss experience in Venture Capital. • ROE on Loans and CG was 16.5% in fiscal 2003 versus 15.1% in fiscal 2002.		• Generate a return on common equity at least equal to the government's long-term cost of funds (4.2%). • ROE on Loans and CG is expected to remain in the 15% range.

CLIENTS

BDC strives to make a unique and significant contribution to the success of dynamic and innovative entrepreneurship for the benefit of all Canadians. In the end, our *raison d'être* is to help Canadian entrepreneurs compete and prosper.

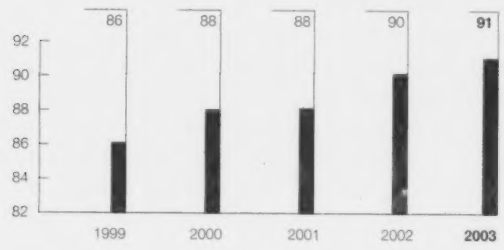
As a result of the demands of our customers, we streamlined our lending processes to better serve our clients. The new processes introduced last year made it possible for 95 percent of credit decisions to be made at the local level. They also gave account managers more time to devote to five key client experience points: visits and contact; annual financial review; interest rate adjustments; privileged postponements; and total repayment. The Bank constantly seeks new ways to improve its performance in meeting evolving customer needs.

The strong relationship that we enjoy with our clientele is demonstrated by our excellent client satisfaction ratio in the 90 percent range. This tells us that our customers are satisfied with what we do, and we will continue keeping decisions close to the client, spending more time with clients and ensuring frontline employees are specialized in handling client needs.

In fiscal 2004 we intend to assume a higher risk level in our portfolio, and this, coupled with the initial impact of the integrated approach, may adversely affect our client satisfaction rating from current levels.

Customer Satisfaction Level

as at March 31 *(percentage)*



We authorized $2,032 million in loans in 2003, and 69 percent of the transactions were for loans less than $250,000. In order to further help these typically smaller sized companies, we reviewed what would better serve our clients. The answer was an integrated approach allowing account managers to deliver both financial and consulting services, to give our clients more than just money and to help develop their businesses and prosper.

Lending Authorized—Classification by Size

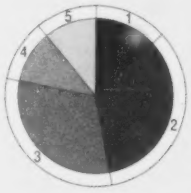
for the year ended March 31, 2003

1	$100,000 or less	46%
2	Over $100,000 to $250,000	23%
3	Over $250,000 to $500,000	15%
4	Over $500,000 to $1,000,000	9%
5	Over $1,000,000	7%

BDC encourages increased investment by Canadian entrepreneurs so they can address the challenges they face each day in an increasingly complex and competitive world. As they explore new markets, not all will be able to secure private sector sources of value-added financing and consulting advice. BDC will be there to meet the needs of thousands of Canada's entrepreneurs by offering flexible solutions that will help them prosper.

Number of Lending Customers by Geographic Area

as at March 31, 2003

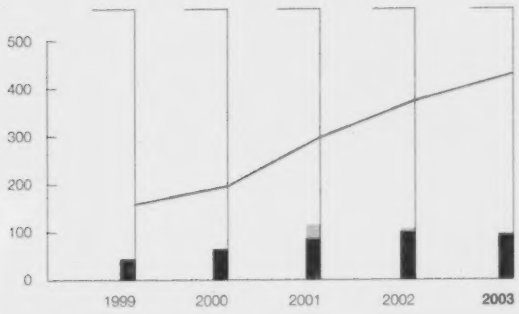


1	Atlantic Provinces	13%
2	Quebec	34%
3	Ontario	31%
4	Prairies, Northwest Territories and Nunavut	11%
5	British Columbia and Yukon	11%

The Venture Capital unit supports new ventures in high-tech fields such as medical technologies, telecommunications, information technology and advanced technology. Despite the difficult market conditions in 2003, BDC continued its commitment to provide financing to companies seeking venture capital. Our goal for the year was to fund $90 million in direct investments, and we achieved $93 million. In addition to its mandate to fund direct investments, the Bank is actively involved in the creation of a fund-of-funds. This private equity fund-of-funds will aggregate capital from a large number of private investors for investment in a diverse spectrum of companies.

Venture Capital Activities

for the year ended March 31 *($ in millions)*



	1999	2000	2001	2002	**2003**
Direct investments authorized	42	63	84	98	**93**
Venture funds authorized	0	0	30	8	**0**
Total authorized	42	63	114	106	**93**
Total commitment as at March 31	157	195	296	374	**430**

Venture Capital Customers—Classification by Industry

as at March 31, 2003

1	Biotechnology/medical/health	27%
2	Electronics	15%
3	Communications and computer-related	43%
4	Industrial	6%
5	Energy	1%
6	Other industries	2%
7	Venture funds	6%

BDC Consulting Group with its employees and with its network of private sector consultants helps entrepreneurs in assessing, planning and implementing solutions to support their business growth.

The Group was involved in 3,625 projects during the year. Total revenue of $18.2 million remained at the same level as in fiscal 2002.

EMPLOYEE COMMITMENT

Since June 2000, BDC has sought the invaluable input of its employees to gain insight into which factors affect employee engagement. Feedback was captured from three different formal processes in fiscal 2003: the Employee Engagement Survey, employee follow-up focus groups and employee exit interviews. In response to the results obtained, a detailed action plan was developed.

Given that the success of any organization is highly dependent upon the quality of its leadership, BDC introduced a major development initiative to address both immediate and future leadership needs. The first phase of this initiative was the creation of the President's Leadership Forum to study the best approach to enhancing leadership competencies and effectiveness of employees. The second phase will result in the BDC Leadership Institute. The President's Award of Excellence program was also introduced, to recognize the dedication of employees who demonstrate excellence in their contributions to the success of BDC.

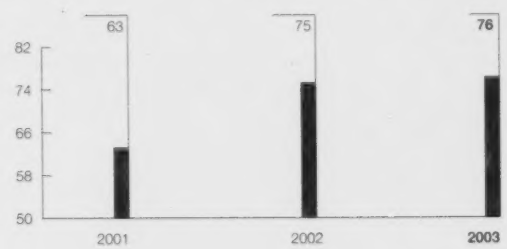
To respond to the need to develop and retain talent and foster a culture of learning and growth, BDC initiated the Career Management Process system that encourages self-assessment, learning and career development. The system enables employees to take an active role in their career progression and professional development all the while providing valuable information critical to the succession planning process.

Part of BDC's commitment is to provide training to its employees. The Bank spent approximately $5 million in fiscal 2003 on training, about 2.5 percent of its total expenses, which is consistent with previous years. We will continue to train our employees to ensure that we are able to meet the challenges of the rapidly changing business environment our employees face each day.

BDC needs to have the best players on its team to serve Canadian entrepreneurs. It also needs to offer a stimulating and enriching work environment. This was particularly significant this past year as the Bank reached the activity level of $2 billion in new loan authorizations. Progress was made on the employee engagement front, particularly in the area of leadership where focus was placed during the year. Results from the Employee Engagement Survey show an improvement to 76 percent from 75 percent in 2002, surpassing the 65 percent performance objective set for the year. The score also indicates that BDC is approaching the 79 percent average engagement score of the Fifty Best Companies to Work for in Canada 2003 study as published in the *Report on Business Magazine*.

Employee Commitment Level

for the year ended March 31 *(percentage)*



FINANCIAL STATEMENTS DISCUSSION

LOANS OPERATIONS

Net interest and other income is a function of the outstanding loan portfolio, and represents the gross margin earned by the Bank on those loans. The net portfolio increased 11 percent from $5.7 billion to $6.3 billion in 2003, while the gross margin of 5.8 percent of the average portfolio was marginally lower than the 5.9 percent earned in fiscal 2002, as the spread on floating rate loans declined slightly in 2003.

Portfolio growth is driven by disbursements of new authorized loans, less repayments and write-offs of existing loans.

The gross margin comprises the rates of interest charged to clients on individual loans, which reflect the Bank's cost of funds, plus risk adjustments, and administrative fees.

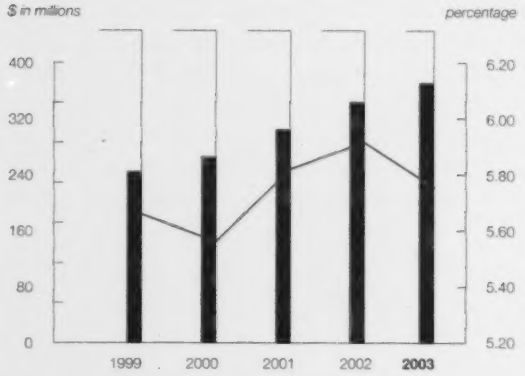
Loans are made to clients at either floating or fixed interest rates, at their option, with the fixed rates at time of commitment reflecting prevailing market rates. At March 2003, $4.8 billion of the performing loan portfolio produced interest income at floating rates averaging 7.5 percent (March 2002: 6.4 percent) while the remaining $1.6 billion was on a fixed basis with rates averaging 8.7 percent (March 2002: 8.8 percent). During the year, customers increasingly opted for the floating rate option to benefit from the lower prevailing rates.

The $6.7 billion of total loans outstanding are financed primarily by the Bank's borrowing activities on the open market, closely matching the borrowing terms and maturities with the lending activities.

Net interest and other income need to be sufficient to cover the provision for loan losses, and operating and administrative expenses, while generating enough net income to increase the capital base through retained earnings to support the Bank's future lending activities.

Loans Operations Net Interest and Other Income

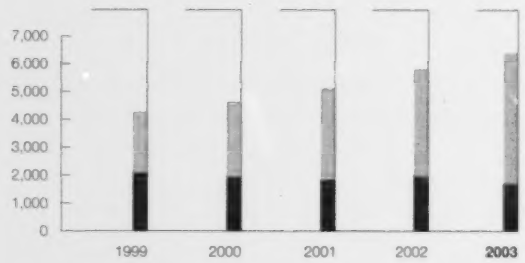
for the year ended March 31



	1999	2000	2001	2002	2003
Net interest and other income (value)	242.3	263.3	302.2	340.6	**368.9**
As a percentage of average portfolio	5.66%	5.56%	5.82%	5.92%	**5.76%**

Performing Loan Portfolio

as at March 31 *($ in millions)*



	1999	2000	2001	2002	2003
Fixed rate portfolio	2,089	1,931	1,857	1,949	**1,656**
Floating rate portfolio	2,161	2,737	3,283	3,854	**4,778**
Total performing loan portfolio	4,250	4,668	5,140	5,803	**6,434**

Allowance and Provision for Loan losses

The Bank's commitment to the small business sector, with emphasis on lending to start-up and early-stage businesses, increases the risk profile of the loan portfolio and therefore the probability of default on such loans. Accordingly, the Bank maintains the cumulative allowance for credit losses at a prudent level in recognition of the concomitant risks in the portfolio, and reflecting its long-term loan loss experience in the 6 to 7 percent range. The allowance of $427 million at March 31, 2003 was $26 million higher than last year, and represented 6.4 percent of the portfolio versus 6.6 percent a year previously.

The cumulative allowance comprises a specific allowance of $96 million which covers the net exposure from identified impaired loans, and a general allowance of $331 million which covers the exposure from the other loans in the portfolio at March 31, 2003. The general allowance represents 5.2 percent of the performing portfolio of $6.4 billion, in line with the ratio from a year ago.

Loan write-offs are charged to the specific allowance. During 2003, $73 million of loans were written off, compared to $49 million in 2002.

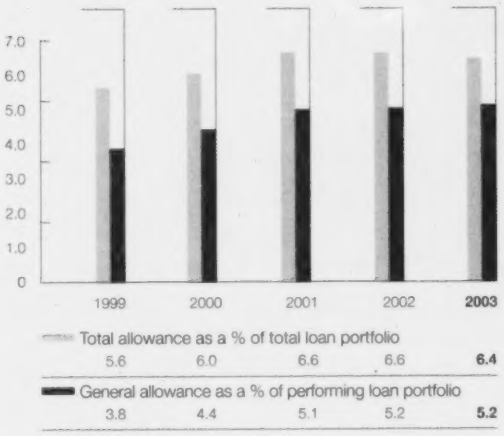
The allowance, net of write-offs, is the cumulative result of the provisions for credit losses. In fiscal 2003, provisions charged against income and credited to the allowance were $98 million versus $95 million in 2002. The $98 million provision represents 1.5 percent of the average outstanding portfolio.

Operating and Administrative Expenses

Loan operating and administrative expenses of $176 million were 7 percent higher than 2002, compared to an increase of 17 percent in authorizations, and 11 percent in the value of the net portfolio, thus providing a meaningful measure of the increase in employee productivity. During the year, operational improvements implemented were aimed at increasing productivity and customer service by task specialization. Staff levels were not increased during the year, which is significant because salary and benefit costs account for one half of the Bank's operating expenses.

Allowance for Credit Losses

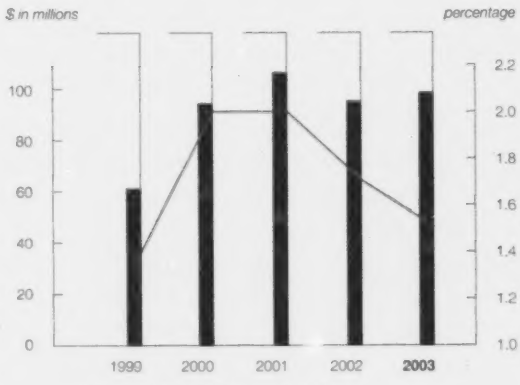
as at March 31 *(percentage)*



	1999	2000	2001	2002	2003
Total allowance as a % of total loan portfolio	5.6	6.0	6.6	6.6	**6.4**
General allowance as a % of performing loan portfolio	3.8	4.4	5.1	5.2	**5.2**

Provision for Credit Losses

for the year ended March 31

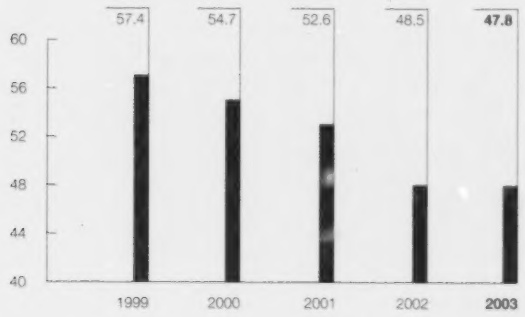


	1999	2000	2001	2002	2003
Provision for credit losses (value)	61	94	106	95	**98**
As a percentage of average loan portfolio	1.4%	2.0%	2.0%	1.7%	**1.5%**

Premises and equipment costs for loan operations of $25 million include the leasing of more than 80 BDC offices across Canada, and also reflect the major commitment of investing in and maintaining information technology hardware and software. A proportionate share of such costs is allocated to Venture Capital and Consulting Group where appropriate. Other expenses of $55 million comprise staff training, publicity, marketing, and miscellaneous office expenses. Such expenses are closely monitored, and consequently the productivity ratio was maintained at 48 percent during fiscal 2003 despite a $2 million increase in pension costs. This important measure compares operating expenses to net interest and other income, with a lower ratio indicating better productivity. Concurrently, the Bank's customer satisfaction rating was maintained at the remarkable level of 91 percent in 2003, indicating that both staff productivity and customer service increased simultaneously.

Loans Operations Productivity Ratio

for the year ended March 31 *(percentage)*



During fiscal 2003, BDC opened two new offices in Calgary and Edmonton to improve the Bank's ability to service that growing market, and expanded a number of branches in other parts of Canada in order to take BDC's performance to higher levels in fiscal 2004. Recruiting of additional staff is planned in order to handle the expected level of customer demand in future years.

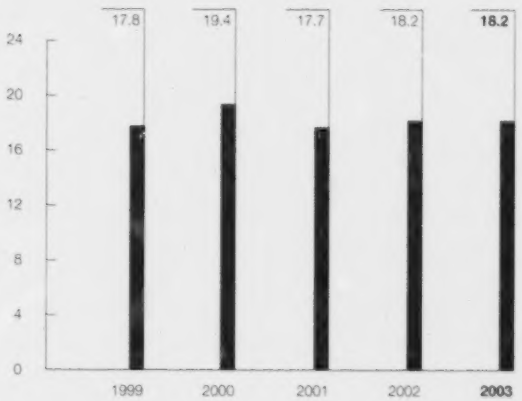
Operating expenses includes a credit for accounting purposes of $11.2 million related to the Bank's Registered Pension Plan, compared to a credit of $13.5 million in fiscal 2002. Notwithstanding the disappointing performance of the stock market in the last several years, the BDC Pension Plan at December 2002 was fully funded and continued to report an actuarial funding surplus which exceeded regulatory levels. Accordingly, both employee and employer contributions have been suspended since 1997. However during calendar year 2002 the surplus for accounting purposes was reduced from $91.6 million to $42.1 million, and if the return on the fund assets remains at low levels, it is possible that the surplus would be further reduced by December 2003. The latest actuarial calculations indicate that in fiscal 2004 the cost of the registered Pension Plan will increase from a credit of $11.2 million to a cost of $0.9 million. The Bank also maintains a Supplemental Pension Plan for employees which is unfunded, and the related accounting cost of $3.3 million was charged against earnings for fiscal 2003.

CONSULTING GROUP OPERATIONS

During fiscal 2003, the business of the Consulting Group was refocused on providing value-added services first and foremost to the Bank's target markets. Revenues for the year totaled $18.2 million, the same level as in fiscal 2002. A significant increase in productivity, lower expenses and a realignment of allocated costs reduced the operating loss from $5.7 million to $3.1 million. Given the nature of this business, it is expected that Consulting Group operations will continue to incur some losses until the revenue base can be increased.

Consulting Group Revenue from Activities

for the year ended March 31 *($ in millions)*



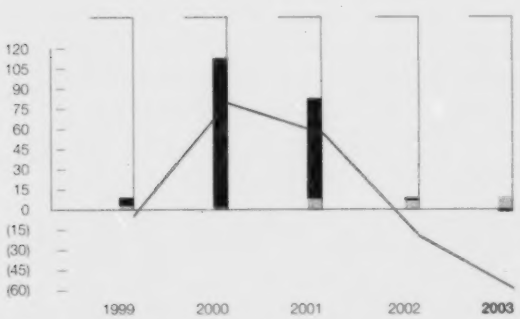
VENTURE CAPITAL

BDC's VC unit has been in existence for over 25 years and ranks amongst the best venture capital firms in Canada. According to a March 2003 study published by Canadian Venture Capital Association (CVCA) and Réseau Capital, BDC ranked in the first quartile for investment returns on early-stage venture capital investments, with a 30.4 percent, 7-year internal rate of return (as at December 31, 2001) in comparison to an industry median of less than 7.8%.

VC's results for last year however were again severely affected by unfavourable market conditions—investment income of only $2 million reflected a lack of divestiture opportunities, while a number of individual investments in the Venture Capital portfolio also experienced "permanent impairment", and in the judgment of Management it was necessary to write-down the value of those investments by amounts aggregating $50 million, compared to write-downs of $18.9 million in fiscal 2002. The net loss for the year was $59.5 million, compared to a loss of $21.0 million for the previous year.

Venture Capital Operations

for the year ended March 31 *($ in millions)*



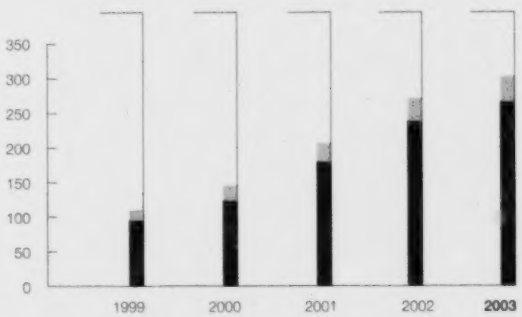
	1999	2000	2001	2002	2003
Net gains (losses) on investments	6.0	112.7	75.8	1.7	**(1.8)**
Other income	3.1	1.6	8.4	7.0	**4.0**
+ = Total investment income	9.1	114.3	84.2	8.7	**2.2**
Venture Capital operating profit (loss)	(4.1)	80.0	56.2	(21.0)	**(59.5)**

Financial results from Venture Capital operations are subject to volatility from year to year, dependent on market conditions, as evidenced by the losses in fiscal years 2002 and 2003, following profits of $80 million and $56 million in fiscal years 2000 and 2001 respectively. The Bank's outlook for fiscal 2004 is that losses in the range of $30-40 million may again be sustained, unless there is an improvement in market conditions.

However, VC activities during fiscal 2003 were considerable—61 direct investments were authorized during the year for $93 million, a similar level of activity to the previous year despite generally lower market volumes, with $57 million or over 60 percent being for first round investments. Consequently the net investment portfolio increased from $271 to $302 million with fair market value at approximately $288 million. Such assets are carried at cost, less any write-downs for permanent impairment, and it is anticipated that the fair market value will fluctuate in fiscal 2004 pursuant to market conditions. Similar levels of investment activity are projected for 2004, and the portfolio is expected to grow to the $390 million range.

Total Investments Outstanding

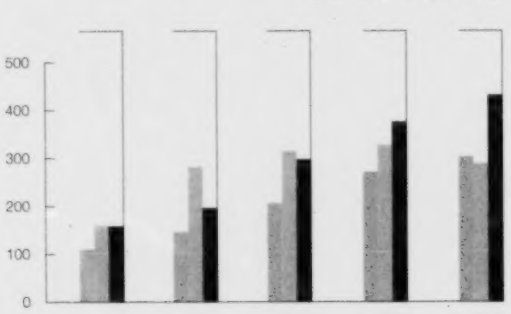
as at March 31 *($ in millions)*



	1999	2000	2001	2002	2003
Direct investments	95.0	122.8	177.8	237.3	**265.3**
Venture funds	15.3	22.3	28.6	33.8	**36.6**
+ = Total investments	110.3	145.1	206.4	271.1	**301.9**

Valuation of Venture Capital — Total Investments

as at March 31 *($ in millions)*



	1999	2000	2001	2002	2003
Carrying value	110	145	206	271	**302**
Fair market value	159	281	314	327	**288**
Commitment	157	195	296	374	**430**

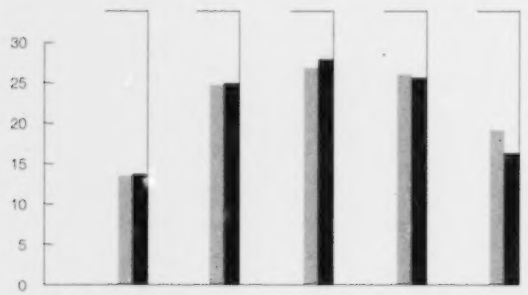
BDC has also invested in other venture capital funds, including five specialized funds with a BDC commitment of $38 million, of which $16 million has been disbursed to date. In addition, $40 million has been fully committed in four seed funds; these seed funds have in turn invested in some 85 Canadian companies. The Bank records its proportionate share of the realized gains, losses, and expenses of such funds with the expectation that most of the returns from such investments will be received in later accounting periods. The net loss recorded for the year was $2.8 million compared to $4.1 million for fiscal 2002.

VC uses the industry internal rate of return (IRR) standard to measure the performance of the investment portfolio. IRR measures the return by determining the rate at which the net present value of the cash flows equals zero. Part of this measure is dependent on an estimate of the current fair market value of assets.

In fiscal 2003, the 10-year IRR on direct investments was 19.2 percent, compared to 26.1 percent in 2002, reflecting the prevailing market conditions during the year. The overall portfolio's IRR, which includes the seed and specialized funds, decreased from 25.6 percent in fiscal 2002 to 16.3 percent in 2003.

Venture Capital 10-year Internal Rate of Return (IRR)

for the year ended March 31 *(percentage)*



	1999	2000	2001	2002	**2003**
Direct investments	13.5	24.8	26.9	26.1	**19.2**
Total investments	13.6	24.9	27.9	25.6	**16.3**

BALANCE SHEET

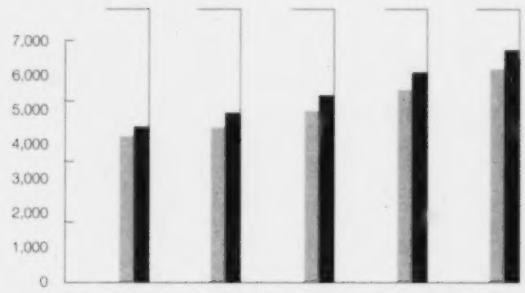
Total assets increased from $6.9 billion to $7.8 billion, driven primarily by increases of $619 million and $31 million in the net loan and net investment portfolios respectively.

The Bank operates within established liquidity parameters to ensure that sufficient funds are available to meet customers' needs, while taking a balanced approach to money market requirements. Cash, short-term investments and securities at year-end amounted to $794 million compared to $715 million at March 31, 2002.

The portfolios and liquidity assets aggregating $7.4 billion* comprise the principal assets of the Bank, and are funded by borrowings of $6.2 billion and shareholder's equity of $1.2 billion. The net portfolio growth of $650 million during fiscal 2003 was funded by borrowings of approximately $450 million and additional equity of $190 million contributed by the Government of Canada.

Total Outstanding Loans vs. Borrowings

as at March 31 *($ in millions)*



	1999	2000	2001	2002	**2003**
Loans	4,501	4,903	5,412	6,071	**6,715**
Borrowings	4,223	4,483	4,949	5,597	**6,174**

Fixed assets of $34 million comprise furniture, leasehold improvements and capitalized information technology investments, net of amortization.

Other assets of $373 million include unrealized gains and amounts receivable of $303 million on derivative financial instruments. These unrealized gains must be recognized in the balance sheet pursuant to Section 3860 of the Canadian Institute of Chartered Accountants' Handbook, and are offset by $179 million in unrealized losses and $85 million in accrued interest on borrowings.

*Shares are held by persons subject to section 33 of the *BDC Act* in Toon Boom Technologies Inc., a $3.4 million investment, and in Alliance Medical Inc., a $281,000 loan.

Shareholder's Equity: Total shareholder's equity at year-end was $1,170 million, including an increase of $20 million in retained earnings net of dividends, and $190 million of additional common shares. This capital base will enable the Bank to increase its support for the growing needs of small businesses. In fiscal 2003 BDC introduced a new common share dividend policy. The dividend is calculated based on a formula that takes into consideration the financial performance of BDC. The dividend is applicable only to "new" common shares injected after fiscal 2002. For the seventh consecutive year BDC declared a dividend, payable to the Government of Canada. The amount for fiscal 2003 was $12.2 million, making a cumulative dividend of $67.1 million since fiscal 1997.

In addition, based on BDC's fiscal 2003 performance, a common dividend of $0.4 million will be paid and recorded in fiscal 2004.

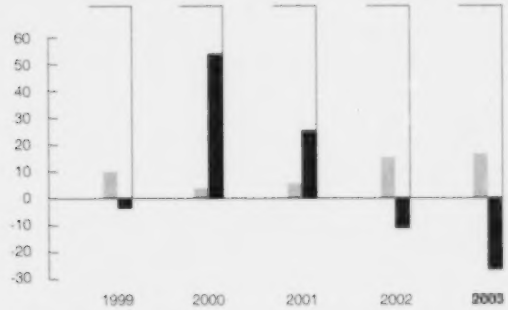
For the year ended March 31, 2003, the Bank operated within all statutory limits stipulated in the *BDC Act*. At year-end the debt-to-equity ratio was 5.3:1.

Return on Common Equity

The return on common equity for the overall results in fiscal 2003 was reduced to 2.7 percent from 5.7 percent last year, and lower than the Bank's long-term objective of 5.5 percent due to the losses experienced in Venture Capital operations. The return on equity for Loans and Consulting Group operations, calculated on a stand-alone basis, was 16.5 percent for fiscal 2003 compared to 15.1 percent for 2002.

Return on Common Equity
Loans and CG vs. Venture Capital

for the year ended March 31 *(percentage)*



	1999	2000	2001	2002	2003
Loans and CG	9.9	3.7	5.5	15.1	**16.5**
Venture Capital	(3.8)	54.1	25.2	(11.6)	**(27.0)**
Total Bank	6.4	18.7	12.6	5.7	**2.7**

CORPORATE PLAN DISCUSSION

Loans Operations—Comparison with 2003 Plan

Loan authorizations of $2.032 billion were 23 percent better than Plan, which, following disbursement, resulted in the portfolio of $6.7 billion compared to the Plan objective of $6.5 billion. The planned level of authorizations was somewhat conservative in that it was determined in the aftermath of the September 11 disaster and took into consideration the uncertainty prevailing at that time. In retrospect, Loans operations benefited from favourable economic conditions in Canada during fiscal 2003, which supported a steady demand for financing, together with a better than expected performance of the loans in the portfolio.

Loan loss provisions of $98 million were $17 million lower than Plan despite the increased portfolio, reflecting improved credit performance under good economic conditions. The Bank continued to take a prudent approach to loss provisioning, and maintained the general allowance at the same ratio as contemplated in the Corporate Plan, while the specific allowance decreased slightly.

Operating and administrative expenses were tightly controlled, and at $176 million were $4 million lower than Plan, as employee productivity improved to the extent that the incremental volume of business was handled by essentially the same complement of employees as in the previous year.

At the net income level, the benefit of the higher portfolio flowed through to the bottom line, with a strong net income of $94 million compared to Plan of $63 million.

2004 Corporate Plan Outlook

Another strong year is anticipated for fiscal 2004—loan authorizations of $2.1 billion are targeted to increase the portfolio to $7.4 billion, while increasing risk is expected to require loss provisions of $120 million, compared to $98 million in fiscal 2003. Some additional staffing will be required to handle the additional business, and pension costs are likely to increase by some $11 million. Operating expenses are anticipated to increase to $200 million. Net income is planned to remain strong at $90 million.

Venture Capital—Comparison with 2003 Corporate Plan

Notwithstanding negative public markets performance, investment activity continued at a high pace during the year, and $93 million in direct investments were authorized in line with the Plan level of $90 million. However, the write-downs of $50 million were significantly more than the Plan level of $15 million, although compared to industry experience the BDC portfolio held its value reasonably well. Operating expenses of $12 million were $2 million lower than Plan, and the net loss of $59.5 million was more than the planned loss of $1 million.

2004 Corporate Plan Outlook

The Plan provides that VC's financial performance will be similar to fiscal 2003, with $97 million of authorizations, $6 million of revenues, potentially $26 million of write-downs, and a net loss of $34 million. Also included in the Plan activities are additional investments of $25 million in specialized funds, and a $50 million commitment in a fund-of-funds. It is anticipated however that over the five-year planning period, VC's performance will improve and reach upwards of $50 million of net income in the last year of the planning period.

INTEGRATED RISK MANAGEMENT

Overview

Sound risk management practices are designed to help BDC achieve its objectives and execute its strategies consistently with its mandate. The Bank has well-established processes for evaluating and managing its business risks. Overall business risks are grouped into three risk categories: credit, market and operational. BDC considers all of its business risks on an integrated basis when making key operating decisions. As an example, last fall Management and the Board approved a market strategy called "Risk, An Opportunity" geared towards taking increased risk with target clients/markets. The analysis leading and supporting the formulation of this strategy was conducted with an integrated view of all business related risks.

Risk Management Structure and Responsibilities

BOARD OF DIRECTORS

> Approve risk policies, risk appetite and strategies
> Ensure risk management and control framework is effective
> Review portfolio and major risks and management plans
> Review capital adequacy

SENIOR MANAGEMENT TEAM

> Establish risk and control framework
> Identify, assess, mitigate, measure and report risk
> Identify major risks and implement appropriate action plans
> Recommend risk management policies and strategies
> Identify risk owners and responsibilities and allocate resources

ASSET AND LIABILITY COMMITTEE

Oversee Treasury funding activities, and compliance with risk policies including matching of assets and liabilities

CREDIT COMMITTEE

Review and approve large loan transactions or recommend them to the Executive Committee of the Board

STRATEGIC BUSINESS COUNCIL

> Define target markets and gaps
> Integrate management of projects affecting credit risk management and operations

PORTFOLIO OUTLOOK

Review loan portfolio concentrations, risk migration and quality and recommend actions

Governance: The Board recently reviewed its governance practices which were determined to be in accordance with best practices. It also reviewed BDC's "top ten" risks. A three-year rolling plan identifies Management's proposed actions and initiatives supporting the management of these risks. The Board receives regular reports from management about the Bank's risk exposures. While the senior management team (SMT) is responsible for all risks, a Portfolio Risk Management Group, reporting directly to the Executive Vice-President, Integrated Risk and Resources Management, focuses on the loan portfolio and BDC's asset and liability positions, thus supporting risk management of key operational groups such as Loans, Venture Capital, Credit Risk Management, Treasury and others.

The **Asset and Liability Committee (ALCO),** which includes senior officers of the Bank, and the Bank's credit risk management function, periodically reviews the policies governing credit, market and liquidity risks related to the Bank's operations. ALCO's policies are approved by the Board and ensure financial risks are responsibly managed to safeguard the Bank's assets. Through these policies the Bank monitors its compliance with the *Financial Risk Management Guidelines for Crown Corporations* issued by the Minister of Finance.

On a quarterly basis, Management holds a **Portfolio Outlook** meeting to oversee loan portfolio trends, risk indicators, concentrations, portfolio studies and loan quality assessments. Reports reviewed and decisions recommended form the basis of Management's actions and information for the Board.

INTEGRATED RISK MANAGEMENT

Overview

Sound risk management practices are designed to help BDC achieve its objectives and execute its strategies consistently with its mandate. The Bank has well-established processes for evaluating and managing its business risks. Overall business risks are grouped into three risk categories: credit, market and operational. BDC considers all of its business risks on an integrated basis when making key operating decisions. As an example, last fall Management and the Board approved a market strategy called "Risk, An Opportunity" geared towards taking increased risk with target clients/markets. The analysis leading and supporting the formulation of this strategy was conducted with an integrated view of all business related risks.

Governance: The Board recently reviewed its governance practices which were determined to be in accordance with best practices. It also reviewed BDC's "top ten" risks. A three-year rolling plan identifies Management's proposed actions and initiatives supporting the management of these risks. The Board receives regular reports from management about the Bank's risk exposures. While the senior management team (SMT) is responsible for all risks, a Portfolio Risk Management Group, reporting directly to the Executive Vice-President, Integrated Risk and Resources Management, focuses on the loan portfolio and BDC's asset and liability positions, thus supporting risk management of key operational groups such as Loans, Venture Capital, Credit Risk Management, Treasury and others.

The **Asset and Liability Committee (ALCO)**, which includes senior officers of the Bank, and the Bank's credit risk management function, periodically reviews the policies governing credit, market and liquidity risks related to the Bank's operations. ALCO's policies are approved by the Board and ensure financial risks are responsibly managed to safeguard the Bank's assets. Through these policies the Bank monitors its compliance with the *Financial Risk Management Guidelines for Crown Corporations* issued by the Minister of Finance.

On a quarterly basis, Management holds a **Portfolio Outlook** meeting to oversee loan portfolio trends, risk indicators, concentrations, portfolio studies and loan quality assessments. Reports reviewed and decisions recommended form the basis of Management's actions and information for the Board.

Risk Management Structure and Responsibilities

BOARD OF DIRECTORS

> Approve risk policies, risk appetite and strategies
> Ensure risk management and control framework is effective
> Review portfolio and major risks and management plans
> Review capital adequacy

SENIOR MANAGEMENT TEAM

> Establish risk and control framework
> Identify, assess, mitigate, measure and report risk
> Identify major risks and implement appropriate action plans
> Recommend risk management policies and strategies
> Identify risk owners and responsibilities and allocate resources

ASSET AND LIABILITY COMMITTEE

Oversee Treasury funding activities, and compliance with risk policies including matching of assets and liabilities

CREDIT COMMITTEE

Review and approve large loan transactions or recommend them to the Executive Committee of the Board

STRATEGIC BUSINESS COUNCIL

> Define target markets and gaps
> Integrate management of projects affecting credit risk management and operations

PORTFOLIO OUTLOOK

Review loan portfolio concentrations, risk migration and quality and recommend actions

BDC's **Strategic Business Council** regularly reviews the relationship between business solutions, risk appetite and credit risk assessment tools. These are enhanced or revised as required to more flexibly meet the needs of clients, and the Bank's risk objectives. Therefore the Council performs a loan portfolio risk integration role.

BDC's **Audit and Inspection** team reviews branches and their loan portfolios for credit risk and compliance with policies and procedures in support of bank objectives. Seventy percent of branches reviewed achieved the highest rating of "effective".

Capital Management: As a complementary lender, BDC is facing and purposely targeting higher levels of credit risk than the majority of private sector financial institutions. As such, sufficient earnings are required not only to compensate for this risk and maintain an adequate level of capital to cover expected and unexpected losses, but also to increase capital to enable the Bank to grow its portfolio by providing additional financing to entrepreneurs. BDC's underlying capital management philosophy is to maximize the shareholder's objective to support active and healthy businesses while ensuring self-sufficiency in terms of financial strength to cover all phases of an economic cycle.

BDC has developed an "economic capital" model based on its own experience and industry best practices for measuring and monitoring capital adequacy. The model is used to measure the capital required to support expected and unexpected losses in credit risk as well as market and operational risks. Capital adequacy is managed to ensure compliance with the 12:1 debt to equity ratio required by the *BDC Act*. Capital requirements for future growth are reviewed in the context of growth and risk tolerance objectives with Management, the Board and the shareholder annually when preparing the corporate plan.

The Bank also operates within certain ratios between debt and equity according to various categories of financing, to determine the adequacy of its capital base:

Commercial Lending	10:1
Subordinate Financing	4:1
Venture Capital	1:1

CREDIT RISK

Loan Portfolio Risk Management

Loan Credit Risk *Loan credit risk is the risk of financial loss that arises from the possibility of default on a loan.*
BDC's mandate requires it to lend to a high-risk segment of the Canadian commercial loan sector. As the portfolio comprises a disproportionately large volume of small loans, it is not possible to attribute ratings of independent credit agencies. Thus, credit decisions are based on the application of BDC's credit experience with like customers. Policies and procedures, together with risk assessment tools, support these business decisions. All loans are assessed within a risk-rating framework which is closely linked to a risk-pricing tool. The risk rating provides the basis for underwriting and management of all loans in the portfolio. Reports are routinely provided to Management and the Board. Underwriting decisions are decentralized and are subject to independent review and audit.

Environmental Risk: *Environmental risk is a financial loss resulting from a loan with an environmental hazard that was unforeseen or improperly managed.*

BDC has a well-defined process for identifying and evaluating environmental risk at the time of authorization of a loan, and a monitoring process to ensure that potential environmental risks continue to be identified and appropriately managed throughout the term of a loan.

Loan Portfolio Management

A new Portfolio Management system was introduced this year to provide the Bank with weekly information on five key risk indicators for new loans and nine portfolio performance indicators. The system allows Management to quickly identify trends. Risk indicators are monitored by industry, geographic sector, business solution, loan size or any combination thereof. Exception reports enable Management to focus attention on corrective action as required.

Portfolio strategies

The Strategic Business Council analyzes data and recommends portfolio strategies. Comprised of representatives from different departments of the Bank, including field operations, marketing, portfolio risk management and credit risk management, each member ensures a balanced and integrated view of both market and risk strategies. As such, the Council supports SMT and the Board in defining market gaps and implementing portfolio and market strategies.

Loan Impairment

A special loans group manages accounts which are impaired or at risk of becoming impaired due to adverse market conditions. Despite significant increases in loan volumes, impaired loans amounted to $281 million at March 2003, compared to $268 million a year ago. The specific allowance for credit losses of $96 million is expected to be sufficient to cover the net loss exposure of these loans.

The general allowance of $331 million as at March 31, 2003 was established in accordance with the Bank's methodology and is considered adequate to cover the unidentified losses existing in BDC's $6.4 billion performing loan portfolio at March 31, 2003.

Loan Portfolio Concentration Risk: *Concentration risk is the risk of several loans or borrowers defaulting at the same time.* Within the domestic Canadian economy, the Bank's loan portfolio is well diversified, both geographically and by industry sector.

Treasury Credit Risk

Liquidity Investments: *Liquidity investment risk is the risk that the quality of the counterparty deteriorates during the transaction period resulting in a loss.*

BDC's treasury department's primary responsibility with liquidity management is to ensure that the Bank has the capacity to meet its payment obligations on a timely and cost-effective basis. BDC has a well-defined liquidity and investment policy. The application of the policy is monitored daily by the Portfolio Risk Management Group. As such, limits are set on the funding and investment profile of the liquidity portfolio and minimum/maximum liquidity levels are calculated based on projected net cash outflows, therefore covering payment and commitment risks. The policy provides clear guidelines for investment counter-parties, all of which are rated above A-. As at March 31, 2003, 92 percent of BDC's liquidity investments were to mature within three months.

Risk Exposure in Cash, Short-Term Investments and Securities

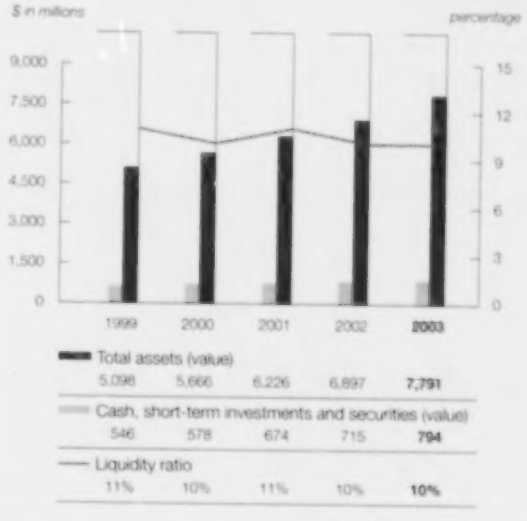
as at March 31, 2003 *($ in millions)*

	Term to maturity		
Credit rating*	Less than 3 months	3 months to 1 year	1 to 5 years
AAA	134.9	0.0	0.0
AA- to AA+	316.3	7.7	56.2
A to A+	279.5	0.0	0.0
Total	730.7	7.7	56.2

* From major credit agencies.

Liquidity Ratio

as at March 31



Derivative Instruments: *Issuer/counterparty risk is the risk of the non-performance of a counterparty and the possible default of a treasury asset or risk transfer transaction, such as a derivative instrument.*

BDC has established credit limits under its counterparty credit risk policy to monitor and manage the credit risk of derivatives. Counterparty credit risk exposure arises when such instruments have positive market value. The Bank has entered into International Swaps and Derivatives Association (ISDA) agreements with counter-parties to derivative transactions in accordance with industry practice. During the year, ISDA agreements have been renewed to include a credit support annex which defines a collateral threshold amount required to protect BDC against risks such as a potential downgrading associated with a counterparty. It is also intended to mitigate credit risk related to increases in mark-to-market values.

Counterparty Credit Risk Exposure

as at March 31, 2003 *($ in millions)*

	Term to maturity			
	Gross exposure			
Credit rating*	Less than 1 year	1 to 3 years	3 years and over	Net exposure**
AAA	0.0	0.0	0.0	0.0
AA- to AA+	0.0	6.3	85.6	75.3
A to A+	19.7	6.6	71.3	9.6
Total	19.7	12.9	156.9	84.9

* From major credit agencies.
** After the impact of master netting agreements and collateral held by the Bank.

MARKET RISK

Market risk is the risk that the value of assets, liabilities or other financial instruments will vary because of changes in market prices.

Market risk includes exposure to interest rates, foreign exchange, liquidity and equity prices.

BDC funds its financing activities by issuing money market instruments, commercial paper and capital market long-term notes. The Bank monitors and manages the market risk exposures associated with these borrowing activities. Market risk factors, such as foreign exchange, equity or commodity prices, or other possible risk factors arising from funding activities, are hedged by the Bank at the transaction level. Canadian interest rate risk comprises the residual market risk exposure.

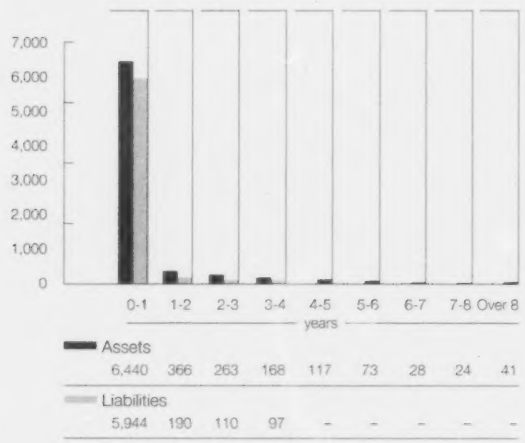
Interest Rate Risk: *Interest rate risk is the risk that market rate fluctuations lead to loss in value of financial instruments.*

Interest rate risk occurs when a liability is settled or re-priced at a time in the future that does not offset the asset that it is funding. BDC uses borrowing strategies and derivative instruments to minimize these differences.

The following graph shows the interest rate gap position of the Bank's lending assets and liabilities as at March 31, 2003, after accounting for the effect of derivative instruments. This indicates that since interest-bearing assets exceed time-related liabilities, the risk has been minimized.

Interest Rate Sensitivity Asset and Liability Gap

as at March 31 *($ in millions)*



The Treasury Market Risk Policy provides guidance for the proactive management of market risk exposure arising from potential adverse movements in interest rates.

The objective of the policy is to minimize the volatility of net interest income and economic value. As such, the policy sets the following controls and limits to ensure the appropriate matching of the Bank's loan portfolio with equity and required debts:

> Sensitivity of economic value of equity by measurement of duration and value-at-risk. For this purpose, BDC uses a 99 percent confidence level and a one year moving historical database;
> Extreme test related to the variability of projected net interest income for the next twelve months related to a 2 percent interest rate variance.

Foreign Exchange Risk: *Market fluctuations in foreign currencies when compared to local currency produce a loss in value.*

Loan assets are maintained in Canadian dollars, while borrowing liabilities originated in foreign currency are fully hedged at the transaction level to Canadian dollars through the use of cross-currency swaps and foreign exchange forward contracts.

Venture Capital Investments: By their nature, venture capital investments are high risk. The return on the investment portfolio depends on the divestitures of successful investments. Successful investments are realizable privately or through transactions on public financial markets that depend on equity prices. The Bank mitigates such risks through conservative valuation, syndication of investments and regular monitoring, and divests its holdings on a phased basis, taking into account market conditions and applicable restrictions on such transactions. During the year VC performed a review of their key risks, which resulted in focusing Management more closely on specific risks and opportunities.

OPERATIONAL RISK

Operational risk is the risk of potential losses arising from day-to-day errors caused by people, processes or systems, or from rare but severe events, such as natural disasters.

BDC has well-defined internal control systems and processes in place for its business transactions. A comprehensive set of policies and procedures govern information processing, lending operations, human resources management and other key operational functions. The Bank's review of its top ten risks includes action plans intended to address operational risks.

BDC has a comprehensive business recovery planning process to ensure continuity of its key business functions in case of disaster. It successfully tested this process during the year and continues to review and improve its contingency planning.

BDC manages the risks associated with technology and telecommunication failures through programs for replacement of computer systems and equipment. Security and control procedures are in place to respect privacy standards and to ensure that information is managed accurately and efficiently.

The Bank has a comprehensive training and development program for employees and is proactively planning succession of key roles. This approach is supported by a "culture of ethics" founded on the Code of Conduct and linked to BDC's Ombudsman's office. In addition to the Code of Conduct which covers such things as conflicts of interest, privacy and professional business conduct, BDC has introduced reporting requirements for contacts by directors, senators, elected officials and their representatives.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The financial statements of the Business Development Bank of Canada were prepared and presented by management in accordance with Canadian generally accepted accounting principles on a basis consistent with that of the preceding year. The information contained therein normally includes amounts requiring estimations which have been made based upon informed judgment as to the expected results of current transactions and events. The financial information presented elsewhere in this annual report is consistent with the financial statements.

In discharging its responsibility for the integrity, fairness and quality of the financial statements and for the accounting systems from which they are derived, management maintains a system of internal control designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by audit and inspection staff who conduct periodic reviews of different aspects of the Bank's operations. In addition, the Vice-President, Audit and Inspection and the independent auditors have full and free access to the Audit Committee of the Board of Directors which is responsible for overseeing and reviewing management's internal control and reporting responsibilities. The Board of Directors, through the Audit Committee which is comprised of Directors who are not employees of the Bank, is responsible for reviewing and approving the audited annual financial statements.

The Bank's independent auditors, KPMG LLP, Chartered Accountants and the Auditor General of Canada have audited the Bank's financial statements and their report indicates the scope of their audit and their opinion on the financial statements.

Michel Vennat
President and Chief Executive Officer

Alan B. Marquis
Senior Vice-President, Finance and Chief Financial Officer

Montreal, Canada
May 23, 2003

AUDITORS' REPORT

To the Minister of Industry:

We have audited the balance sheet of the Business Development Bank of Canada as at March 31, 2003 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Bank as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Bank that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Business Development Bank of Canada Act* and the by-laws of the Bank.

KPMG LLP
Chartered Accountants

Montreal, Canada
May 23, 2003

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
May 23, 2003

BALANCE SHEET

as at March 31 *($ in thousands)*

	2003	2002
ASSETS		
Cash and short-term investments (Note 3)	**$ 730,717**	$ 632,441
Securities (Note 4)	**63,259**	82,655
	793,976	715,096
Loans, net of allowance for credit losses (Notes 5 and 6)	**6,288,636**	5,669,513
Venture capital investments (Note 7)	**301,945**	271,064
	6,590,581	5,940,577
Fixed assets, net of accumulated amortization	**33,712**	28,912
Other assets (Note 8)	**373,090**	212,619
	406,802	241,531
TOTAL ASSETS	**$ 7,791,359**	$ 6,897,204
LIABILITIES AND SHAREHOLDER'S EQUITY		
Accounts payable and accrued liabilities	**$ 56,555**	$ 52,618
Accrued interest on borrowings	**89,151**	129,226
	145,706	181,844
Borrowings (Note 9)		
Short-term notes	**3,265,368**	3,444,279
Long-term notes	**2,908,520**	2,152,764
	6,173,888	5,597,043
Other liabilities (Note 10)	**301,748**	157,997
SHAREHOLDER'S EQUITY		
Share capital (Note 11)	**788,400**	598,400
Contributed surplus	**27,778**	27,778
Retained earnings	**353,839**	334,142
	1,170,017	960,320
Contingent liabilities and commitments (Note 16)		
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	**$ 7,791,359**	$ 6,897,204

The accompanying Notes to Financial Statements are an integral part of this statement.

Approved by the Board:

Terry B. Grieve,
Director

Michel Vennat,
Director

STATEMENT OF INCOME AND RETAINED EARNINGS

For the year ended March 31 *($ in thousands)*	2003	2002
Loans		
Interest income		
Interest on loans	**$ 490,027**	$ 475,070
Short-term investments and securities	**24,747**	32,330
	514,774	507,400
Interest expense	**176,618**	195,127
Net interest income	**338,156**	312,273
Provision for credit losses (Note 6)	**98,000**	95,000
Net interest income after provision for credit losses	**240,156**	217,273
Other income	**30,800**	28,372
Income before operating and administrative expenses	**270,956**	245,645
Operating and administrative expenses (Note 12)	**176,449**	165,187
Income from Loans	**94,507**	80,458
Consulting Group		
Revenue	**18,221**	18,189
Operating and administrative expenses (Note 12)	**21,363**	23,937
Loss from Consulting Group	**(3,142)**	(5,748)
Venture Capital		
Interest and dividends	**1,782**	3,608
Net realized gains on investments	**3,752**	7,825
Unrealized losses on temporary investments	**(5,606)**	(6,078)
Other	**2,237**	3,338
Investment income	**2,165**	8,693
Write-down of investments	**50,041**	18,948
Net investment loss	**(47,876)**	(10,255)
Operating and administrative expenses (Note 12)	**11,609**	10,722
Loss from Venture Capital	**(59,485)**	(20,977)
NET INCOME	**31,880**	53,733
RETAINED EARNINGS		
Beginning of year	**334,142**	297,126
Dividend on preferred shares	**(12,183)**	(16,717)
END OF YEAR	**$ 353,839**	$ 334,142

The accompanying Notes to Financial Statements are an integral part of this statement.

STATEMENT OF CASH FLOWS

For the year ended March 31 *($ in thousands)*	2003	2002
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES		
Net income	$ 31,880	$ 53,733
Adjustments to determine net cash flows:		
Net realized gains on venture capital investments	(3,752)	(7,825)
Unrealized losses on venture capital temporary investments	5,606	6,078
Provision for credit losses and write-down of venture capital investments	148,660	114,558
Amortization of fixed assets	8,977	10,355
Changes in operating assets and liabilities:		
Change in interest receivable on loans	(1,201)	1,616
Change in accrued interest on borrowings	(21,225)	(16,552)
Translation adjustment on borrowings and securities	(54,520)	(84,337)
Net change in unrealized gains and amounts receivable on derivative financial instruments	(149,282)	63,133
Net change in unrealized losses and amounts payable on derivative financial instruments	123,672	(12,782)
Net change in other assets and other liabilities	(1,315)	(4,330)
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	87,500	123,647
CASH FLOWS USED IN INVESTING ACTIVITIES		
Net change in securities	15,342	(13,707)
Net change in securities purchased under resale agreements	89,823	6,201
Disbursements for loans	(2,141,799)	(1,868,894)
Disbursements for venture capital investments	(102,254)	(102,547)
Repayments of loans	1,425,877	1,157,019
Proceeds on sales of venture capital investments	19,478	20,642
Net acquisition of fixed assets	(13,777)	(6,949)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(707,310)	(808,235)
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		
Issue of long-term notes	1,472,654	798,945
Repayment of long-term notes	(729,965)	(943,271)
Net change in short-term notes	(107,270)	875,445
Proceeds from issue of common shares	190,000	–
Dividend paid on preferred shares	(17,510)	(13,844)
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	807,909	717,275
Net increase in cash and cash equivalents	188,099	32,687
Cash and cash equivalents at beginning of year	467,641	434,954
Cash and cash equivalents at end of year (note 3)	$ 655,740	$ 467,641
Supplemental disclosure of cash flow information		
Amount of interest paid in the year	$ 197,843	$ 211,679

The accompanying Notes to Financial Statements are an integral part of this statement.

1. ACT OF INCORPORATION, OBJECTIVES AND OPERATIONS OF THE CORPORATION

The Business Development Bank of Canada (BDC) is a Crown corporation which was established by an Act of Parliament on December 20, 1974 as the Federal Business Development Bank, and continued under its current name by an Act of Parliament on July 13, 1995. The Bank is wholly-owned by the Government of Canada and is exempt from income taxes.

The objectives of the Bank are to promote and assist in the establishment and development of business enterprises in Canada, especially small and medium-sized businesses, by providing a wide range of financial and consulting services complementary to those of commercial financial institutions. The Bank offers to Canadian companies services tailored to meet the current needs of small and medium-sized businesses while earning an appropriate return on investment capital, which is used to further the Bank's activities.

To finance these objectives, the Bank issues debt instruments which are secured by the Government of Canada. *The Business Development Bank of Canada Act* also allows the issuance of hybrid capital instruments to provide the capital required for meeting the growing financial needs of Canadian small and medium-sized businesses. The Crown would not be liable for payment of amounts owing under such capital instruments.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. As such, the preparation of financial statements requires that management make estimates and assumptions that affect reported amounts and disclosures in these statements. Actual results could differ from those estimates. Significant estimates include allowances for losses on loans and consideration of write-downs and disclosure of fair values of venture capital investments. A variation in the circumstances or economic conditions under which these estimates are made could result in a significant change in these management judgments. The significant accounting policies used in the preparation of these financial statements are summarized below.

Securities

Debt securities are carried at amortized cost with premiums and discounts amortized over the period to maturity. Where there has been a decline in value of a security that is other than temporary, the carrying value of the security is appropriately reduced. Interest revenue, gains and losses on disposal and adjustments to record any impairment in value that is other than temporary are included in income.

Loans

Loans are stated at principal amounts including accrued interest receivable, net of allowance for credit losses. Interest on loans is recorded as income on an accrual basis except for loans which are considered impaired.

Loans are classified as impaired when there is a deterioration in credit quality to the extent that the Bank no longer has reasonable assurance that the full amount of principal and interest will be collected. When a loan becomes impaired, recognition of interest income ceases and any previously accrued interest that is unpaid is reversed against interest income. Any interest received on impaired loans is applied to the carrying amount of the loan unless the loan is fully secured and does not require a specific allowance, in which case interest income is recognized on a cash basis.

For impaired loans measured on the basis of expected future cash flows, as explained under *Allowance for credit losses*, the increase in present value attributable to the passage of time is recorded as interest income.

Allowance for credit losses

The allowance for credit losses is maintained at a level considered adequate to absorb the credit losses existing in the Bank's portfolio. It reflects management's best estimate of losses existing in the loan portfolio at the balance sheet date. The allowance is increased by an annual provision for credit losses which is charged against income and is reduced by write-offs, net of recoveries.

The allowance for credit losses is comprised of specific and general allowances.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Specific allowances are established on a loan-by-loan basis for impaired loans. The carrying amount of an impaired loan is reduced to its estimated realizable value by discounting the expected future cash flows at the effective interest rate inherent to the loan or, if cash flows cannot be reasonably determined, by using the estimated fair value of any underlying security, net of realization costs. Initial allowances as well as subsequent changes thereto are recorded through the provision for credit losses as an adjustment to the specific allowance.

The general allowance represents the best estimate of probable impairment attributable to the deterioration of credit quality in the remaining portfolio for which specific allowances cannot yet be determined. The amount is estimated based on historical loss experience and management's assessment of general economic and business conditions affecting the lending operations, recent loan loss experiences and trends in the credit quality of the loan portfolio.

Venture capital investments

Venture capital investments are recorded at cost, whereby interest and dividends are included in income when received. Investments in venture capital and seed capital funds over which the Bank has joint control or significant influence are accounted for using the proportionate consolidation or equity accounting method, respectively. Under these methods, the Bank accrues its share of the undistributed income or expenses of the funds. Gains or losses on disposal of investments are recognized in income when realized. However, when the value of an investment is permanently impaired, the investment is written down to recognize the loss.

Non-cash consideration received on disposal of investments is presented as temporary investments within venture capital investments and recorded at the lower of the value at the date of sale of the venture capital investment and current market value at the balance sheet date.

Fixed assets and amortization

Fixed assets are recorded at cost and amortized over their estimated useful lives, using the straight-line method as follows:

Computer equipment and software	3-7 years
Furniture and fixtures	5 years
Leasehold improvements	over the term of the lease, maximum 15 years

Premiums, discounts and debt issue expenses

Premiums, discounts and expenses related to the issue of debt are amortized on a straight-line basis over the term of the obligations to which they pertain and are charged to interest expense.

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing on the balance sheet date. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at average exchange rates for the year.

All exchange gains and losses are included in determining net income for the year.

Derivative financial instruments

The Bank enters into derivative financial instruments to manage the interest rate, foreign exchange rate and equity market exposures arising from on-balance sheet positions. The Bank's policy is not to use derivative financial instruments for trading or speculative purposes. The Bank formally documents all relationships between hedging instruments and hedged items. This process includes linking all derivatives to specific assets and liabilities on the balance sheet.

Derivative financial instruments such as interest rate swaps and forward rate agreements are used as hedges of interest rate risk resulting from the repricing of assets and liabilities. The Bank designates its interest rate hedge agreements as hedges of underlying borrowings. These derivatives are accounted for on an accrual basis with the related interest revenue or expense recognized over the life of the hedged position as an adjustment to interest expense and presented in other assets and in accrued interest on borrowings.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments such as currency swaps, cross-currency interest rate swaps, equity-linked swaps, and forward foreign exchange contracts are used as hedges for foreign currency and equity market risk resulting from foreign currency denominated or equity-linked borrowings. Unrealized foreign exchange and equity translation gains and losses on these derivative financial instruments are respectively accrued in other assets and liabilities on the balance sheet and are recognized in income, offsetting the respective translation gains and losses on the underlying foreign currency or equity-linked borrowings. The forward premium or discount on forward foreign exchange contracts is amortized as an adjustment of interest expense over the term of the forward contract.

Premiums paid or received with respect to derivative financial instruments are deferred and amortized to interest expense over the lives of the derivative contracts.

Employee future benefits

The Bank maintains defined benefit pension plans for eligible employees. Periodic valuations are performed by independent actuaries to determine the present value of the accrued pension benefits using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, compensation escalation, retirement ages of employees and other factors. The discount rate used to determine present value is based on market interest rates for long-term high-quality debt instruments.

The net pension expense or credit is comprised of the actuarially computed cost of pension benefits provided in respect of the current year's service, imputed interest on pension liabilities, expected income on plan assets based on an average of market-related values and the amortization of experience gains or losses, adjustments from plan amendments and transitional balances upon adoption of the current accounting policy. Amortization is charged on a straight-line basis over the expected average remaining service life of the employees covered by the plans.

Amortization of experience gains or losses is recognized in the expense for the year if the unamortized net actuarial gain or loss at the beginning of the year exceeds 10% of the value of the accrued benefit obligation or 10% of the fair market value of the plan assets, whichever is greater. Amortization corresponds to the excess divided by active employees' expected average remaining service life.

The Bank also provides life insurance, health care and retirement allowance benefits for eligible retirees as well as other employee and retiree benefits which are accrued based on actuarial valuations.

3. CASH AND SHORT-TERM INVESTMENTS

		2003		2002
Bank account balances, net of cheques outstanding	$	**(5,187)**	$	(694)
Short-term bank notes		**660,927**		468,335
Cash and cash equivalents		**655,740**		467,641
Securities purchased under resale agreements		**74,977**		164,800
	$	**730,717**	$	632,441

Short-term bank notes have maturities at the original acquisition date of less than 90 days.

The Bank enters into short-term agreements, whereby it purchases and simultaneously commits to resell securities at a specified price on a specified date. These transactions, which are a form of secured investing by the Bank, produce interest income over the term of the investments.

4. SECURITIES

	Term to maturity		2003	2002
	Within 1 year	1 to 3 years	Total	Total
Canada				
Carrying value	$ –	$ –	**$ –**	$ 25,879
Yield	–	–	**–**	6.75%
Fair value	$ –	$ –	**$ –**	$ 25,936
Financial Institutions				
Carrying value	$ 7,677	$ 55,582	**$ 63,259**	$ 56,776
Yield	3.28%	3.23%	**3.23%**	2.84%
Fair value	$ 7,677	$ 56,201	**$ 63,878**	$ 57,497
Total				
Carrying value	$ 7,677	$ 55,582	**$ 63,259**	$ 82,655
Yield	3.28%	3.23%	**3.23%**	4.09%
Fair value	$ 7,677	$ 56,201	**$ 63,878**	$ 83,433
Swap Contracts				
Notional amount	$ 7,600	$ 55,000	**$ 62,600**	$ 78,535
Adjusted yield (1)	3.35%	3.10%	**3.13%**	2.18%
Amounts denominated in foreign currencies included in the carrying value of securities				
	US dollars - 2002	$ 45,814		$ 72,962
	US dollars - 2003	$ 20,720	**$ 30,388**	

(1) After adjusting for the effect of related derivatives (see Note 14).

All securities held as at March 31 were issued by Canadian entities at fixed rates. Yields are based upon carrying values and contractual interest rates adjusted for amortization of premiums and discounts. Term to maturity classifications are based upon the contractual maturity of the security. Fair value is based on market quotes when available and may not be realized on sale. If quoted market prices are not available, fair values are estimated using quoted market prices of similar securities. Where appropriate, the Bank has entered into cross-currency interest rate and interest rate swaps to adjust the interest rate and the foreign exchange risks associated with the above securities.

5. LOANS

The following table summarizes the repricing or maturity dates, whichever is earlier, and the effective interest rates of loans outstanding as at March 31. The effective interest rates are computed on a weighted average basis.

	2003		2002	
Performing – floating	**$ 4,777,768**	**7.45%**	$ 3,854,234	6.43%
Performing – fixed				
Under one year	**534,545**	**8.06%**	473,370	8.19%
1 to 2 years	**246,150**	**8.60%**	439,889	8.50%
2 to 3 years	**253,176**	**9.12%**	211,761	9.16%
3 to 4 years	**174,654**	**9.11%**	247,302	9.64%
4 to 5 years	**148,687**	**9.48%**	162,552	9.34%
Over 5 years	**299,437**	**8.78%**	413,633	9.08%
Performing	**6,434,417**		5,802,741	
Impaired	**280,928**		267,958	
Total loans	**6,715,345**		6,070,699	
Allowance for credit losses				
General	**(330,464)**		(300,746)	
Specific	**(96,245)**		(100,440)	
	(426,709)		(401,186)	
Loans, net of allowance for credit losses	**$ 6,288,636**		$ 5,669,513	

The average amount of loans, net of allowance for credit losses, was of $5,959,328 in 2003 ($5,334,944 in 2002).

5. LOANS (continued)

The concentrations of the total loans outstanding by province and territory as at March 31 are set out in the table below. The largest concentration in one individual or closely related group of clients is less than 1%.

Geographic Distribution	2003		2002	
Newfoundland and Labrador	$ 251,476	3.8%	$ 215,141	3.6%
Prince Edward Island	42,965	0.6%	42,261	0.7%
Nova Scotia	149,810	2.2%	128,716	2.1%
New Brunswick	255,802	3.8%	223,168	3.7%
Quebec	2,661,460	39.6%	2,483,772	40.9%
Ontario	2,140,631	31.9%	1,832,667	30.2%
Manitoba	92,715	1.4%	99,684	1.6%
Saskatchewan	107,546	1.6%	102,522	1.7%
Alberta	401,697	6.0%	354,743	5.8%
British Columbia	562,623	8.4%	539,734	8.9%
Yukon	20,399	0.3%	20,964	0.3%
Northwest Territories and Nunavut	28,221	0.4%	27,327	0.5%
Total loans outstanding	$ 6,715,345	100.0%	$ 6,070,699	100.0%

6. ALLOWANCE FOR CREDIT LOSSES

The following table summarizes the changes in the allowance for credit losses as at March 31:

	2003	2002
Balance at beginning of year	$ 401,186	$ 358,154
Write-offs	(72,544)	(49,008)
Interest income due to accretion	(3,671)	(5,100)
Recoveries	3,738	2,140
	328,709	306,186
Provision for credit losses	98,000	95,000
Balance at end of year	$ 426,709	$ 401,186

7. VENTURE CAPITAL INVESTMENTS

The Bank maintains a portfolio of venture capital investments which is focussed on companies having promising competitive positions in their respective marketplaces and strong growth potential. The concentrations of venture capital investments are listed below. The largest single investment within these sectors is 3.4% of total venture capital investments.

	2003		2002	
Industry Sector	Carrying value	Fair value	Carrying value	Fair value
Biotechnology/Medical/Health	$ 77,601	$ 71,446	$ 80,692	$ 87,418
Computer	50,889	53,782	49,504	53,028
Venture Capital Seed Funds	20,718	17,459	25,917	39,676
Venture Capital Funds	15,929	16,281	7,885	10,495
Electronics	63,736	59,039	49,707	69,615
Communications	57,023	50,745	39,257	48,562
Energy	6,200	6,200	6,015	6,015
Industrial	4,400	4,806	3,484	3,890
Consumer-related	2,538	2,538	2,538	2,574
Other	2,911	5,295	6,065	6,200
Venture capital investments	$ 301,945	$ 287,591	$ 271,064	$ 327,473

(See Note 13 for determination of fair value)

The preceding table includes $8,030 ($13,567 in 2002) of temporary investments, with a fair value of $8,200 ($14,548 in 2002). The average carrying value of venture capital investments was $292,415 in 2003 ($247,882 in 2002).

7. VENTURE CAPITAL INVESTMENTS (continued)

Investments are generally held 4 to 7 years. Divestitures are made through listings of investee shares on public markets or the sale of the Bank's shares to other existing shareholders or to third parties. Investment yields vary from year to year due to the amount and timing of dividend and interest income received and divestitures made. Below is a summary of the venture capital portfolio by type of investment.

Carrying value	2003	2002
Common shares	$ 119,738	$ 121,441
Preferred shares	151,663	129,879
Debentures	30,544	19,744
Venture capital investments	$ 301,945	$ 271,064

The Bank has invested in T²C² Bio, T²C² Info, Western Technology and Eastern Technology seed funds over which it has joint control. Below is a summary of the Bank's recorded proportionate share of the assets, liabilities, revenues, expenses and cash flows of these funds.

	2003	2002
Current assets	$ 2,331	$ 3,949
Venture capital investments	17,227	21,581
Other assets	9	13
Current liabilities	10	15
Investment income	1,556	2,311
Write-down on investments	3,233	5,142
Operating and administrative expenses	1,145	1,318
Net loss	$ (2,822)	$ (4,149)
Cash flows from (used in):		
Operating activities	$ (1,023)	$ (872)
Investing activities	2,565	410
Financing activities	(3,150)	1,748

8. OTHER ASSETS

	2003	2002
Unrealized gains and amounts receivable on derivative financial instruments	$ 302,565	$ 153,283
Accrued benefit asset	62,606	51,419
Unamortized debt issue expenses on long-term notes	1,462	794
Other	6,457	7,123
	$ 373,090	$ 212,619

Unrealized gains and amounts receivable on derivative financial instruments are receivable from counterparties under derivative contracts and generally correspond to foreign currency and other adjustments in the underlying borrowings. Unrealized losses and amounts payable to counterparties under derivative contracts are included in "Other liabilities" (see Note 10) and in "Accrued interest on borrowings".

9. BORROWINGS

The Bank issues debt instruments in world money and capital markets to fund its loan portfolio. Foreign currency and equity market risk is hedged through the use of derivatives, such that essentially all of the Bank's borrowings are effectively denominated in Canadian dollars and bear interest at Canadian fixed or floating rates. In addition, where appropriate, the Bank enters into interest rate and cross-currency interest rate swap contracts to hedge the related interest rate risks. The table below shows the outstanding notes as at March 31.

			2003		2002	
Maturity date	Effective rate		Principal amount	Carrying value	Principal amount	Carrying value
Short-term notes						
2003		USD			$ 1,235,065	$ 1,959,494
		CDN			1,488,305	1,484,785
2004	2.66%-3.33%	USD	$ 800,907	$ 1,160,611		
		CDN	2,115,249	2,104,757		
Total short-term notes				$ 3,265,368		$ 3,444,279

9. BORROWINGS (continued)

			2003		2002	
Maturity date	Effective rate*		Principal amount	Carrying value	Principal amount	Carrying value
Long-term notes						
2003		USD	$ –	**$ –**	$ 13,000	$ 19,772
		CDN	–	**–**	276,500	276,500
2004	2.73%-3.03%	USD	12,500	**33,211**	–	–
	2.60%-6.10%	CDN	347,500	**347,500**	317,500	317,500
2005	2.79%-5.15%	CDN	181,000	**181,000**	181,000	181,000
2006	2.58%-5.65%	CDN	241,665	**242,466**	240,536	235,098
2007	2.80%	EURO	4,587	**7,233**	4,587	6,361
	2.67%-6.01%	CDN	268,760	**275,443**	257,094	256,863
2008	2.89%	USD	5,000	**7,336**	–	–
	2.69%-4.61%	CDN	265,600	**265,600**	114,600	114,600
2009	2.78%	USD	50,000	**73,361**	–	–
	2.65%-2.88%	CDN	268,032	**272,890**	230,832	227,297
2010	2.84%-5.82%	USD	25,000	**36,680**	25,000	39,828
	2.68%-2.86%	CDN	186,461	**195,683**	102,665	102,665
2011	2.78%	USD	10,000	**14,075**	10,000	15,850
	2.61%-2.89%	CDN	213,610	**211,190**	65,000	65,000
2012		YEN	–	**–**	500,000	13,276
		CDN	–	**–**	35,000	35,000
2013	2.83%-2.86%	YEN	2,000,000	**24,735**	–	–
	2.81%-2.89%	USD	71,000	**104,171**	–	–
	2.83%	CDN	5,000	**5,000**	–	–
2014		YEN	–	**–**	1,600,000	19,212
2015	2.79%-2.89%	YEN	8,600,000	**106,359**	2,600,000	31,220
2017		YEN	–	**–**	16,300,000	195,722
2018	2.76%-2.90%	YEN	40,800,000	**504,587**	–	–
Total long-term notes				**$ 2,908,520**		$ 2,152,764

* The effective rates on long-term notes are after giving effect to swap contracts when applicable. Information as to the repricing dates of the interest rate swap contracts is included in Note 14.

The preceding table includes $2,493,520 in 2003 and $1,592,764 in 2002 of long-term notes payable which have been the subject of interest rate, cross-currency interest rate and equity-linked swap contracts and options with other financial institutions. These borrowings fund a portion of the Bank's floating interest rate loan portfolio and bear interest at effective rates that are reset monthly or quarterly. The remaining long-term notes payable bear interest at fixed rates.

The maturity dates for callable and extendable notes are presented based on their first option date.

The Bank has issued a number of structured notes for which interest and/or principal at maturity is linked to fluctuations in equity indices, currency rates, swap rates and other market references. Other notes may be called prior to maturity, or have their maturity extended, upon exercise of call or extension options by the Bank or the noteholders. The type of notes included in the above table are as follows:

	2003	2002
Interest-bearing notes	**$ 455,000**	$ 560,000
Fixed and inverse floating rate notes callable prior to maturity	**477,188**	43,227
Managed futures	**594,767**	188,056
Notes linked to equity indices	**808,575**	731,689
Notes linked to currency rates	**177,903**	104,890
Notes linked to swap rates	**13,604**	69,643
Fixed rate notes callable prior to maturity	**45,000**	188,822
Notes extendible beyond maturity	**10,000**	118,000
Other structured notes	**326,483**	148,437
	$ 2,908,520	$ 2,152,764

9. BORROWINGS (continued)

As at March 31, 2003, the payment requirements and maturities of long-term notes are as follows:

2004	$ 380,711
2005	181,000
2006	242,466
2007	282,676
2008	272,936
2009 and later	1,548,731
	$ 2,908,520

10. OTHER LIABILITIES

	2003	2002
Deferred income	$ 590	$ 927
Accrued benefit liability	96,905	88,436
Unrealized losses and amounts payable on derivative financial instruments	178,671	36,150
Other	25,582	32,484
	$ 301,748	$ 157,997

11. SHARE CAPITAL AND STATUTORY LIMITATIONS

Share Capital

Authorized:

(a) An unlimited number of preferred shares without par value, non-voting, issuable in series;

(b) An unlimited number of common shares, having a par value of $100 (one hundred dollars) each.

Outstanding	2003			2002		
	Number of shares	Amount	Dividend rate	Number of shares	Amount	Dividend rate
Preferred shares						
Class A – Series 1	500,000	$ 50,000	4.585%	500,000	$ 50,000	5.592%
– Series 2	500,000	50,000	6.545%	500,000	50,000	6.545%
– Series 3	500,000	50,000	5.515%	500,000	50,000	5.515%
– Series 4	400,000	40,000	3.760%	400,000	40,000	5.548%
– Series 5	400,000	40,000	3.910%	400,000	40,000	6.251%
– Series 6	–	–		650,000	65,000	4.879%
		230,000			295,000	
Common shares	5,584,000	558,400		3,034,000	303,400	
Total Outstanding Share Capital		$ 788,400			$ 598,400	

Class A Preferred Shares have a fixed, preferential and cumulative dividend and are exchangeable at the option of the holder, with the approval of the Minister of Finance, for fully-paid common shares on the basis of one common share for each Class A Preferred Share. All dividends accumulated or declared and unpaid as at the date of exchange are payable by the Bank on a pro rata basis, as if such dividends had accrued from day-to-day. The dividend rates on Class A Preferred shares are for periods ranging from one to five years and are adjusted at the beginning of the subsequent period to equal the consolidated revenue fund lending rate published by the Minister of Finance, plus a specified premium ranging from 0.230% to 0.375%.

During the year ended March 31, 2003, the holder of Series 6 Preferred Shares Class A opted to convert $65 million of the preferred shares to 650,000 common shares and the Bank issued 1,900,000 common shares for a cash consideration of $190 million.

Statutory Limitations

The aggregate of borrowings and contingent liabilities of the Bank in the form of guarantees given by it may not exceed twelve times the shareholder's equity of the Bank.

Moreover, the paid-in capital of the Bank, the contributed surplus and any proceeds that have been prescribed as equity must not at any time exceed $1.5 billion.

12. OPERATING AND ADMINISTRATIVE EXPENSES

	2003			2002		
	Loans	**Consulting Group**	**Venture capital**	Loans	Consulting Group	Venture capital
Salaries and staff benefits	**$ 95,923**	**$ 17,465**	**$ 6,193**	$ 89,437	$ 18,479	$ 4,835
Premises and equipment	**25,042**	**649**	**1,179**	25,341	1,305	1,017
Other expenses	**55,484**	**3,249**	**4,237**	50,409	4,153	4,870
	$ 176,449	**$ 21,363**	**$ 11,609**	$ 165,187	$ 23,937	$ 10,722

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

The amounts set out below represent the fair values of on- and off-balance sheet financial instruments held or issued by the Bank using the valuation methods and assumptions referred to below. The estimated fair value amounts represent approximate amounts at which the instruments could be exchanged between willing parties. However, many of the financial instruments lack an available trading market. Therefore, in these cases fair values are estimated using present value and other valuation techniques which are significantly affected by the assumptions used. As such, the derived fair value estimates should not be interpreted as realizable values in an immediate settlement of the instruments.

The carrying values are not adjusted to reflect increases or decreases in fair values resulting from fluctuations in interest rates, as generally it is the Bank's intention to realize the value of these financial instruments over time by holding them to maturity.

	2003			2002		
	Carrying value	**Fair value**	**Fair value over (under) carrying value**	Carrying value	Fair value	Fair value over (under) carrying value
Balance Sheet						
Assets						
Cash and short-term investments	**$ 730,717**	**$ 730,717**	**$ –**	$ 632,441	$ 632,441	$ –
Securities (Note 4)	**63,259**	**63,878**	**619**	82,655	83,433	778
Loans, net of allowance for credit losses	**6,288,636**	**6,307,924**	**19,288**	5,669,513	5,680,904	11,391
Venture capital investments	**301,945**	**287,591**	**(14,354)**	271,064	327,473	56,409
Other assets	**144,498**	**144,498**	**–**	60,927	60,927	–
	$ 7,529,055	**$ 7,534,608**	**$ 5,553**	$ 6,716,600	$ 6,785,178	$ 68,578
Liabilities						
Accounts payable and accrued liabilities	**$ 56,555**	**$ 56,555**	**$ –**	$ 52,618	$ 52,618	$ –
Accrued interest on borrowings	**59,457**	**59,457**	**–**	79,068	79,068	–
Short-term notes	**3,265,368**	**3,265,368**	**–**	3,444,279	3,444,279	–
Long-term notes	**2,908,520**	**2,924,414**	**15,894**	2,152,764	2,155,999	3,235
Other liabilities	**5,689**	**5,689**	**–**	11,927	11,927	–
	$ 6,295,589	**$ 6,311,483**	**$ 15,894**	$ 5,740,656	$ 5,743,891	$ 3,235
			$ (10,341)			$ 65,343
Derivative financial instruments (Note 14)	**$ (43,923)**	**$ (60,327)**	**$ (16,404)**	$ 13,148	$ (19,977)	$ (33,125)
Total			**$ (26,745)**			$ 32,218

13. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair values are based on a range of valuation methods and assumptions which are as follows:

Financial instruments valued at carrying value—The estimated fair value of the following assets and liabilities is assumed to approximate carrying value as the items are short-term in nature:

- Cash and short-term investments
- Other assets
- Accounts payable and accrued liabilities
- Accrued interest on borrowings
- Short-term notes

Securities—The fair value of securities is provided in Note 4 to the financial statements.

Loans—For performing variable rate loans, estimated fair value is assumed to equal carrying value. For performing fixed rate loans, estimated fair value is determined using a discounted cash flow calculation that uses market interest rates currently charged for similar new loans at March 31 to expected maturity or repricing. For impaired loans, fair value is equal to carrying value in accordance with the valuation methods described in Note 2 under *Allowance for credit losses.*

Venture capital investments—For venture capital investments made during the current year, estimated fair value is assumed to equal the carrying value. For investments in publicly traded companies, fair value is the quoted share price at March 31. The fair value of other investments is estimated using established earnings multiples.

Long-term notes—The fair value of long-term notes is based on quoted market prices for similar issues, or current rates offered to the Bank for notes of the same remaining maturity.

Derivative financial instruments—The fair value of derivative financial instruments is provided in Note 14 to the financial statements.

14. DERIVATIVE FINANCIAL INSTRUMENTS

As described in Note 2, the Bank uses derivative financial instruments to manage the financial risk of certain on-balance sheet positions. These instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity investment or index and depending on the circumstances, may include the following:

Swaps

Swaps involve the exchange of cash flow obligations on a specific notional amount, for a predetermined period. *Interest rate swaps* involve exchange of fixed and floating interest payments. *Currency swaps* involve exchange of currencies at specific prices and dates. *Cross-currency interest rate swaps* involve the exchange of both interest and notional amounts in two different currencies. For *equity-linked swaps*, one of the payments exchanged represents the variation in the equity index over time, and the other is based on agreed fixed or floating rates.

Forwards and Futures

Forwards and futures are contractual agreements to either buy or sell currencies or financial instruments at specified prices and dates in the future.

Options

Options are agreements in which the writer (or the seller) of the option grants the buyer the right, but not the obligation, to buy or sell a specific amount of a currency, commodity or financial instrument at a price agreed upon when the options are arranged. The writer receives a premium for selling this instrument.

14. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The following table provides the fair value of the Bank's derivatives portfolio as at March 31 as presented by unrealized gains or losses.

	2003			2002		
	Positive	**Negative**	**Net amount**	Positive	Negative	Net amount
Derivative financial instruments						
Interest rate swap contracts	**$ 5,997**	**$ 3,391**	**$ 2,606**	$ 4,355	$ 8,521	$ (4,166)
Equity-linked swap contracts	**176,431**	**143,431**	**33,000**	68,670	65,554	3,116
Forward rate agreements	**–**	**–**	**–**	85	1,597	(1,512)
Cross-currency interest rate swap contracts	**7,074**	**39,286**	**(32,212)**	8,159	24,867	(16,708)
Currency forward contracts	**–**	**63,721**	**(63,721)**	4,871	5,578	(707)
Total fair value	**$ 189,502**	**$ 249,829**	**$ (60,327)**	$ 86,140	$ 106,117	$ (19,977)
Less impact of master netting agreements	**66,225**	**66,225**	**–**	60,410	60,410	–
Total	**$ 123,277**	**$ 183,604**	**$ (60,327)**	$ 25,730	$ 45,707	$ (19,977)

The fair value of derivatives is determined using various methodologies including quoted market prices, where available, prevailing market rates for instruments with similar characteristics and maturities, and net present value analysis or other pricing methodologies as appropriate.

Credit risk

The notional amounts of financial instruments held by the Bank are not indicative of the credit or market risk exposure associated with the contracts. The risk of loss is related only to the possibility that a counterparty to a transaction does not perform as agreed. In the event of default by a counterparty, the risk to the Bank in these transactions would be limited to the prevailing currency and/or interest rate differentials as represented by the positive fair values of transactions that are in an unrealized gain position. The Bank limits its exposure to this type of risk by dealing only with financial institutions having credit ratings in accordance with the Department of Finance guidelines, and believes it does not have any significant concentrations in any individual financial institution. The Bank continually monitors its position and the credit ratings of its counterparties and seeks to limit its credit exposure by entering into master netting agreements with counterparties. The credit risk associated with contracts in a favourable position is eliminated by a master netting agreement only to the extent that contracts in an unfavourable position with the same counterparty will not be settled before the favourable contracts. The Bank's overall exposure to credit risk on derivative instruments can change substantially within a short period since it is affected by each transaction subject to the arrangement.

Counterparty Credit Risk Exposure	**Counterparty Ratings**			
	AAA	**AA- to AA+**	**A to A+**	**Total**
Gross positive replacement cost	**$ –**	**$ 91,888**	**$ 97,614**	**$ 189,502**
Impact of master netting agreements	**–**	**(16,597)**	**(49,628)**	**(66,225)**
Replacement cost (after master netting agreements)	**$ –**	**$ 75,291**	**$ 47,986**	**$ 123,277**
Replacement cost (after master netting agreements) – 2002	$ –	$ 21,152	$ 4,578	$ 25,730
Number of counterparties				
March 31, 2003	**0**	**8**	**7**	
March 31, 2002	1	9	4	

14. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The following table summarizes the notional amount by terms to maturity or repricing dates and replacement costs on derivative financial instruments:

	Term to maturity or repricing								2003		2002	
	Within 1 year	%	1 to 3 years	%	3 to 5 years	%	Over 5 years	%	Notional amount	Replacement cost	Notional amount	Replacement cost
Interest rate contracts												
$CDN payable – fixed	$ 54,897	5.57	$ 25,000	5.54	$ 22,195	6.01	$ –	–	**$ 102,092**	**$ –**	$ 150,792	$ –
$CDN receivable – fixed	24,963	3.62	40,000	4.43	–	–	45,000	5.38	**109,963**	**3,236**	291,159	2,612
Basis swaps	150,000	n.a.	–	–	–	–	–	–	**150,000**	**–**	150,000	156
Equity-linked swap contracts	127,203	n.a.	253,755	n.a.	596,564	n.a.	1,118,892	n.a.	**2,098,414**	**176,431**	1,171,987	68,670
Other contracts	–	n.a.	–	–	18,812	n.a.	–	n.a.	**18,812**	**2,761**	57,459	1,587
	357,063		318,755		639,571		1,163,892		**2,479,281**	**182,428**	1,821,397	73,025
Forward rate agreements	–	–	–	–	–	–	–	–	**–**	**–**	1,400,000	85
Cross-currency interest rate swap contracts	–	n.a.	30,000	n.a.	13,915	n.a.	979,799	n.a.	**1,023,714**	**7,074**	596,168	8,159
Total interest rate contracts	357,063	–	348,755	–	653,486	–	2,143,691	–	**3,502,995**	**189,502**	3,817,565	81,269
Foreign exchange contracts												
Currency forward contracts	1,268,540	n.a.	–	–	–	–	–	–	**1,268,540**	**–**	2,009,089	4,871
Total foreign exchange contracts	1,268,540	–	–	–	–	–	–	–	**1,268,540**	**–**	2,009,089	4,871
Total	$ 1,625,603	–	$ 348,755	–	$ 653,486	–	$ 2,143,691	–	**$ 4,771,535**	**$ 189,502**	$ 5,826,654	$ 86,140
Less impact of master netting agreements	–	–	–	–	–	–	–	–	**–**	**66,225**	–	60,410
Total	$ 1,625,603	–	$ 348,755	–	$ 653,486	–	$ 2,143,691	–	**$ 4,771,535**	**$ 123,277**	$ 5,826,654	$ 25,730

n.a. – not applicable or weighted rates are not significant.

The notional amount represents the amount at which a rate or price is applied in order to calculate the exchange of cash flows.

Replacement cost represents the cost of replacing, at current market rates, all contracts in an unrealized gain position.

The rates represent the weighted average interest rates that the Bank has contracted to pay or to receive up to maturity or repricing. The floating side for almost all of the Canadian dollar swap contracts is based on one- or three-month Canadian Bankers' Acceptance. All amounts in U.S. dollars are converted into the Canadian dollar equivalent.

15. INTEREST RATE SENSITIVITY

Interest rate risk occurs when a liability is settled or re-priced at a time in the future that does not offset the asset that it is funding. These differences in duration cover both on- and off-balance sheet financial instruments. The Bank uses borrowing strategies and derivative instruments to continuously manage this risk with the objective of minimizing such differences.

16. CONTINGENT LIABILITIES AND COMMITMENTS

As at March 31, 2003:

(a) various legal proceedings arising from the normal course of business are pending against the Bank. Management believes that the aggregate liability resulting from these proceedings will not be material.

(b) the undisbursed amounts on loans authorized total $874,594. These loan commitments are for an average period of three months ($74,147 in fixed, $800,447 in floating). The effective interest rates on these loan commitments vary from 5.25% to 18.0%. The undisbursed amounts on authorized venture capital investments total $56,495.

(c) the future minimum lease commitments under operating leases related to the rental of Bank premises are as follows:

2004	**$ 16,832**
2005	**16,926**
2006	**16,150**
2007	**15,091**
2008	**13,008**
2009 - 2020	**81,310**
	$159,317

17. EMPLOYEE FUTURE BENEFITS

The Bank maintains defined benefit pension plans (the "Pension Plans") for eligible employees, which provide post-retirement benefits based on number of years of service and average final pay. The Bank also provides life insurance and health care benefits for eligible retirees as well as other employee and retiree benefits (the "Other Plans").

The following tables present, in aggregate, information on a calendar year basis concerning the employee future benefit plans:

	Registered pension plan		Supplemental pension plans		Other plans	
	2003	2002	2003	2002	**2003**	2002
Change in accrued benefit obligation						
Balance at beginning of year	**$ 360,939**	$ 348,124	**$ 29,861**	$ 26,057	**$ 74,595**	$ 68,271
Current service cost	**13,054**	12,501	**1,002**	909	**3,112**	2,653
Interest cost on benefit obligation	**24,465**	24,662	**2,055**	1,871	**5,211**	4,785
Benefits paid	**(17,686)**	(15,780)	**(388)**	(390)	**(2,887)**	(2,015)
Actuarial (gain) loss	**(580)**	(8,568)	**(1,668)**	1,414	**1,536**	901
Balance at end of year	**380,192**	360,939	**30,862**	29,861	**81,567**	74,595
Change in fair value of plan assets						
Balance at beginning of year	**$ 452,534**	$ 474,038	**$ 3,827**	$ 3,943	**$ —**	$ —
Employee contributions	**—**	167	**125**	—	**—**	—
Employer contributions	**—**	—	**—**	131	**633**	398
Actual return on plan assets during the year	**(12,539)**	(5,891)	**43**	143	**—**	—
Benefits paid	**(17,686)**	(15,780)	**(388)**	(390)	**(633)**	(398)
Balance at end of year	**422,309**	452,534	**3,607**	3,827	**—**	—
Surplus (deficit) at end of year	**$ 42,117**	$ 91,595	**$ (27,255)**	$(26,034)	**$ (81,567)**	$ (74,595)
Employer contributions after December 31	**—**	—	**36**	34	**153**	92
Unamortized transitional obligation (asset)	**(73,927)**	(87,368)	**516**	249	**1,972**	2,169
Unamortized net actuarial loss	**94,416**	47,192	**5,105**	7,282	**4,135**	2,367
Accrued benefit asset (liability) at end of year[3]	**$ 62,606**	$ 51,419	**$ (21,598)**	$ (18,469)	**$ (75,307)**	$ (69,967)

1 Employees of the Bank are currently not required to contribute to the Pension Plans for current service. The Bank has the ultimate responsibility for ensuring that pension obligations are adequately funded over time. In specific circumstances, employees are allowed to contribute amounts to the Pension Plans for the recognition of years of service that are not already recognized.

2 Transitional balances as at April 1, 2000 and past service costs from amendments to the plans are amortized on a straight-line basis over the active employees' expected average remaining service life. The active employees' expected average remaining service life under the Pension Plans ranges from 6.8 years to 8.5 years. The expected average remaining service life of the active employees covered by the Other Plans is 13 years for all but one of the plans, in which case it is 8.5 years.

3 Net amount recognized in balance sheet as "Other liabilities" or "Other assets", as appropriate.

17. EMPLOYEE FUTURE BENEFITS (continued)

Pension and other post-retirement expense is included in Salaries and Staff benefits and is as follows:

	Registered pension plan		Supplemental pension plans		Other plans	
	2003	2002	**2003**	2002	**2003**	2002
Plan expense (credit)						
Current service cost	**$ 13,054**	$ 12,501	**$ 1,002**	$ 909	**$ 3,112**	$ 2,653
Interest cost on benefit obligation	**24,465**	24,662	**2,055**	1,871	**5,211**	4,785
Expected return on plan assets	**(35,495)**	(37,258)	**(148)**	(190)	**–**	–
Amortization of transitional obligation (asset)	**(13,441)**	(13,441)	**(267)**	(267)	**197**	315
Amortization of net actuarial loss	**231**	–	**621**	497	**55**	2
Curtailment loss	**–**	–	**–**	–	**–**	765
Expense (credit) for the year ended March 31	**$ (11,186)**	$ (13,536)	**$ 3,263**	$ 2,820	**$ 8,575**	$ 8,520

The unamortized net actuarial loss in the Bank's registered pension plan is $94,416 which exceeds 10% of the fair value of plan assets by $52,185 at December 31, 2002. This excess will be amortized to pension expense over the expected average remaining service life of active employees, commencing April 1, 2003. Accordingly, the Bank's pension expense is expected to increase by approximately $6 million in its fiscal year ended March 31, 2004, due to the increase in loss amortization. The amount of loss amortization subsequent to March 31, 2004 will be principally affected by the difference between future investment results and the expected return on plan assets.

Included in the above accrued benefit obligation and value of plan assets at year-end are the following amounts in respect of plans that are not fully funded:

	Supplemental pension plans		Other plans	
	2003	2002	**2003**	2002
Fair value of plan assets	**$ 3,607**	$ 3,827	**$ –**	$ –
Accrued benefit obligation	**30,862**	29,861	**81,567**	74,595

The significant actuarial assumptions adopted in measuring the Bank's accrued benefit obligations (weighted averages) are as follows:

	Registered pension plan		Supplemental pension plans		Other plans	
	2003	2002	**2003**	2002	**2003**	2002
Significant actuarial assumptions						
Discount rate at beginning of year	**6.70%**	7.00%	**6.70%**	7.00%	**6.70%**	7.00%
Discount rate at end of year	**6.75%**	6.70%	**6.75%**	6.70%	**6.75%**	6.70%
Expected long-term rate of return on plan assets[1]	**8.00%**	8.00%	**4.00%**	5.00%	**–**	–

1 The expected long-term return on plan assets is calculated using assets valued at fair market value.

The average rate of compensation increase is expected to be inflation which is assumed to be 3.25% (in 2002, 3.25%) plus a 0.5% productivity gain plus an adjustment for merit and promotion.

For measurement purposes, medical costs were assumed to increase with inflation, plus a further increase of 2.5% in 2004 graded down by 0.5% each year to 1.0% in 2007 and subsequent years (in 2002 an increase of 3.0% for 2003 graded down by 0.5% each year to 1.0% for 2007 and subsequent years).

18. RELATED PARTY TRANSACTIONS

The Bank is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Bank entered into transactions with these entities in the normal course of business.

19. SEGMENTED RESULTS OF OPERATIONS

The operations of the Bank are grouped into two principal business segments comprising Loans and Venture Capital activities. Disclosure of each segment's revenues, expenses and net income is set out in the Statement of Income and the average assets of the Loan and Venture Capital portfolios are disclosed in Notes 5 and 7 respectively.

20. COMPARATIVE FINANCIAL DATA

Certain comparative figures have been reclassified to conform with the presentation adopted in 2003.

To BDC's Board of Directors, maintaining sound and dynamic corporate governance is of utmost importance in effectively supervising the management of the Bank's business. In fulfilling its responsibilities, the Board is firmly committed to ensuring that the Bank operates according to an approach that combines its public policy goals with solid business principles.

The Board of Directors is composed of a maximum of 15 members: the Chairperson, the President and Chief Executive Officer, and 13 external directors. The Board members represent regional and sector diversity, giving the Board extensive knowledge of the needs of small and medium-sized business. In addition, the Board of Directors frequently meets in different locations in order to meet with clients and business communities across the country and gain a better understanding of the challenges specific to each region.

The Board of Directors and its committees assume the following governance responsibilities:

> Monitor the effectiveness of the Bank's corporate governance practices and approve any modifications.

> Approve the strategic orientation and the Corporate Plan, investment and operating budgets and all major policies.

> Strictly monitor achievement of goals by examining the Bank's performance in each of its areas of activity.

> Authorize compensation policies.

> Ensure a succession plan for senior management is in place.

> Ensure business risks are properly identified and appropriate risk management systems are implemented.

> Ensure financial reporting, internal control and audit systems meet the Board's needs in terms of effectiveness and integrity.

The Board of Directors met seven times in fiscal 2003. Three of these meetings were held in different locations across Canada. The Board of Directors also held their annual strategic meeting to review the Bank's strategic priorities and all key factors in its economic environment, and to initiate an open and dynamic discussion with senior management on the projected corporate plan.

The Board also held a special meeting following a similar exercise carried out two years earlier, in order to conduct a detailed and comprehensive review of its governance practices. This meeting enabled the Board members to examine the trends and developments in best practices, and to make changes to its governance practices to continue to comply with the most stringent current practices.

The Board of Directors continued to promote open communications with Management enabling senior management to actively participate in Board meetings. However, the Board also adopted the practice of holding, at the conclusion of each meeting, *in-camera* sessions in order to foster open and frank discussions exclusively among Directors.

The Board of Directors also reinforced its position of having all discussions and decisions concerning Bank governance take place at the level of the Board of Directors. The Board therefore decided that Bank governance responsibilities previously delegated to the Executive Committee would be returned to the Board of Directors. The Executive Committee continues to authorize loans and investments exceeding the limits delegated to Management.

Once they are appointed, the directors attend an information session and meet all the members of senior management so that they may receive all the information they require concerning the Bank's operations to properly carry out their responsibilities. In addition, the directors can directly access members of senior management at any time to obtain additional information in the course of their mandate. They are invited to participate in activities and professional development workshops on corporate governance or other topics related to their various responsibilities.

The Board of Directors delegates part of its work to five committees. The Board ensures that these five committees are composed exclusively of external directors, with the exception of the Executive Committee and the Pension Fund Committee, and the Trustees of the Pension Fund, which include the Chairperson of the Board and the President and Chief Executive Officer. These committees review and supervise the various matters referred to them by the Board and make recommendations they deem appropriate. All the committees are required to report regularly to the Board of Directors on their activities and submit the appropriate recommendations and resolutions for approval by the Board. A brief description of their main responsibilities and achievements for fiscal 2003 follows.

Executive Committee

The Executive Committee met 18 times in fiscal 2003. It approved loans and venture capital investments that exceeded Management's delegated authority.

Chairperson: Cedric E. Ritchie
Members: James A. Durrell, Terry B. Grieve, V. Peter Harder, Roslyn Kunin, Michel Vennat

Governance Committee

The Governance Committee administers the Bank's system of governance. It reviews governance best practices on a continuing basis and makes recommendations of appropriate changes to enhance the effectiveness of the Bank's system of governance. This review includes the methods and processes by which the Board fulfills its duties including: communication process between the Board and Management, number and content of meetings, material provided to Directors and resources available to Directors. The Committee also determines the structure, the mandate and the membership of the Board's committees. In 2003, the Committee organized a full day workshop with members of the Board and senior management to benchmark its governance system with all the recent best practices and legislation developed during the course of the last months.

Chairperson: Cedric E. Ritchie

Members: Cynthia Desmeules-Bertolin, Léandre Cormier, Jennifer Corson, James A. Durrell, Barbara Stymiest

Human Resources Committee

The Human Resources Committee supports the Bank's belief that its success lies in its people. Through HR strategy based of fostering a culture of engagement, learning and growth, the Bank will continue to attract, develop and retain productive and motivated employees who take pride in delivering excellent service to customers.

During fiscal 2003, the Committee monitored the progress of key HR initiatives including the implementation of a new Career Management Process, the President's Leadership Forum, and the implementation of its Flexible Benefit Program. In addition, the Committee reviewed the Bank's Corporate Succession Plan and the compensation policies and payments.

The HR Committee supports the Bank's on-going commitment to learning and development of its leaders to ensure organizational success over the long term.

Chairperson: Gordon J. Feeney

Members: Leo E. Cholakis, Léandre Cormier, Jennifer Corson, Oryssia Lennie

Audit Committee

In fiscal 2003, the Audit Committee met four times. The Committee oversees financial reporting, corporate financing, treasury management, performance measurement, internal control systems and the code of conduct. Its members help the Board safeguard the Bank's assets and manage its resources. It reviews the quarterly financial results and oversees the external auditors' involvement in the annual financial audit. It also reviews the work of the internal audit and inspection team and reviews the financial statements in the Annual Report prior to Board approval. The Committee continued its practice of meeting the internal and external auditors in private sessions and discussed the independence of auditors including the type and extent of non-audit mandates. It continued to review the responsibilities of audit committees set forth by different authorities and commenced initial discussions for the Special Examination.

Chairperson: Terry B. Grieve

Members: N. Murray Edwards, Gordon J. Feeney, Roslyn Kunin, Oryssia Lennie, Barbara Stymiest

Pension Fund Committee and the Trustees of the Pension Fund

The Pension Fund Committee and the Trustees of the Pension Fund monitor the pension fund's activities, ensure that the fund is administered and financed in accordance with applicable legislation, and ensure that any changes to the plan reflect the Committee's terms of reference.

In fiscal 2003, the Committee met four times to review the pension plan's actuarial assumptions and the performance of the fund's investment managers. Changes were made to the mix of certain asset classes and to the management structure to ensure that they reflected changing opportunities that could enhance the pension fund's financial performance and stability. Members ensured that the Bank received excellent service from external suppliers administering the pension fund. Despite continued difficult domestic and international stock markets, which had a negative impact on the fund's performance, the fund has continued to report a surplus for the year ended December 31, 2002.

Chairperson: Leo E. Cholakis

Membres: Clément Albert, Cynthia Desmeules-Bertolin, Léandre Cormier, Mary Karamanos, Roslyn Kunin, Yves Milette, Cedric E. Ritchie, Michel Vennat

Board of Directors

From left to right:

Cedric E. Ritchie, O.C., Chairman of the Board
Business Development Bank of Canada, Toronto, Ontario

Michel Vennat, O.C., Q.C., President and Chief Executive Officer
Business Development Bank of Canada, Montréal, Quebec

Jennifer Corson, President
Renovators Resource Inc., Halifax, Nova Scotia

Léandre Cormier, President and Owner
West-Wood Industries Ltd., Scoudouc, New Brunswick

Leo E. Cholakis, L.L.B., Managing Director
Kensington Building Ltd., Winnipeg, Manitoba

Cynthia Desmeules-Bertolin, Senior Advisor
Métis Nation of Alberta, Edmonton, Alberta

Oryssia Lennie, Deputy Minister
Western Economic Diversification, Edmonton, Alberta

Terry B. Grieve, Principal
Ventures West Management Inc., Saskatoon, Saskatchewan

Gordon J. Feeney, Company Director
Toronto, Ontario

N. Murray Edwards, President
Edco Financial Holdings Ltd., Calgary, Alberta

V. Peter Harder, Deputy Minister
Industry Canada, Ottawa, Ontario

Roslyn Kunin, Ph.D., C.M., President
Roslyn Kunin & Associates Inc., Vancouver, British Columbia

James A. Durrell, President
Capital Dodge Chrysler Jeep Ltd., Ottawa, Ontario

Barbara Stymiest, Chief Executive Officer
TSX Group, Toronto, Ontario

Our sincere appreciation is extended to Peter G. Jollymore and Roger Plamondon for the role they played in the development of the Bank. Their term expired in August 2002.

Officers

< **Michel Vennat,** O.C., Q.C.
President and Chief
Executive Officer

< **André Bourdeau**
Executive Vice-President
Financial Services

> **Edmée Métivier**
Executive Vice-President
Integrated Risk and
Resources Management

< **Michel Ré**
Executive Vice-President
Investments

< **Guy G. Beaudry**
Senior Vice-President
Corporate Affairs

> **Michel Bourret**
Senior Vice-President
Operations, Quebec
and Atlantic Region

> **Simone Desjardins**
Senior Vice President
Operations
Ontario Region

< **Charlotte Robb**
Senior Vice President
Operations, Prairies
and Western Region

< **Jacques Lemoine**
Senior Vice-President
Credit

> **Michel Desjardins**
Senior Vice-President
BDC Consulting Group

^ **Alan B. Marquis**
Senior Vice-President
Finance and Chief
Financial Officer

< **Richard Morris**
Vice-President
Audit and Inspection

> **Clément Albert**
Vice-President
and Treasurer

Five-year Operational and Financial Summary

OPERATIONAL STATISTICS

for the year ended March 31 *($ in thousands)*

	2003	2002	2001	2000	1999
LOANS AND VENTURE CAPITAL					
Total financing committed*					
as at March 31					
Amount	**$ 8,025,719**	$ 7,201,137	$ 6,352,838	$ 5,641,060	$ 5,090,228
Number of customers	**21,897**	20,780	19,664	18,667	17,923
Committed to lending customers*					
as at March 31					
Amount	**$ 7,595,964**	$ 6,826,948	$ 6,056,761	$ 5,445,990	$ 4,933,237
Number of customers	**21,733**	20,625	19,533	18,568	17,833
Committed to investment customers					
as at March 31					
Amount	**$ 429,755**	$ 374,189	$ 296,077	$ 195,070	$ 156,991
Number of customers	**164**	155	131	99	90
Total financing authorized*					
Net amount	**$ 2,124,596**	$ 1,845,425	$ 1,647,032	$ 1,428,312	$ 1,261,891
Number	**6,387**	5,806	5,173	4,749	4,239
Lending authorized*					
Net amount	**$ 2,031,907**	$ 1,739,404	$ 1,532,870	$ 1,365,516	$ 1,220,084
Number	**6,326**	5,743	5,102	4,687	4,192
Investments authorized					
Net amount	**$ 92,689**	$ 106,021	$ 114,162	$ 62,796	$ 41,807
Number	**61**	63	71	62	47
FINANCIAL STATISTICS					
Net interest and other income as a percentage of average loan portfolio	**5.8%**	5.9%	5.8%	5.6%	5.7%
Provision for credit losses as a percentage of average loan portfolio	**1.5%**	1.7%	2.0%	2.0%	1.4%
Operating and administrative expenses as a percentage of average loan portfolio	**2.8%**	2.9%	3.1%	3.0%	3.2%
Loans operations productivity ratio	**47.8%**	48.5%	52.6%	54.7%	57.4%
CONSULTING GROUP					
Revenue from activities	**$ 18,221**	$ 18,189	$ 17,724	$ 19,396	$ 17,823

*Restated to exclude Global Line of Credit® and Student Business Loans.

Five-year Operational and Financial Summary

FINANCIAL INFORMATION

($ in thousands)

	2003	2002	2001	2000	1999
STATEMENT OF INCOME					
for the year ended March 31					
Net income (loss)					
Loans	**$ 94,507**	$ 80,458	$ 37,254	$ 25,320	$ 42,124
Venture Capital	**$ (59,485)**	$ (20,977)	$ 56,168	$ 80,039	$ (4,124)
Consulting Group	**$ (3,142)**	$ (5,748)	$ (5,100)	$ (4,254)	$ (5,216)
Net Income	**$ 31,880**	$ 53,733	$ 88,322	$ 101,105	$ 32,784
BALANCE SHEET					
as at March 31					
Loans, net of allowance for credit losses	**$ 6,288,636**	$ 5,669,513	$ 5,054,254	$ 4,608,188	$ 4,248,745
Venture capital investments, net of accumulated write-down of investments	**$ 301,945**	$ 271,064	$ 206,360	$ 145,107	$ 110,298
Total assets	**$ 7,791,359**	$ 6,897,204	$ 6,225,518	$ 5,666,333	$ 5,098,461
Total shareholder's equity	**$ 1,170,017**	$ 960,320	$ 923,304	$ 783,826	$ 583,832
Total liabilities	**$ 6,621,342**	$ 5,936,884	$ 5,302,214	$ 4,882,507	$ 4,514,629
Average loan portfolio	**$ 6,402,284**	$ 5,749,376	$ 5,194,279	$ 4,736,601	$ 4,281,607

Glossary

Allowance for Credit Losses
Represents an amount deemed adequate by management to fully provide for impairment in the existing loan portfolio. Allowance for credit losses can be specific or general and is recorded on the balance sheet as a deduction from loans.

Debt to Equity Ratio
A measure to ensure the Bank operates within its statutory limitations on debts, calculated as the aggregate of the borrowings and contingent liabilities over the total shareholder's equity. The statutory limitations of the Bank's debt to equity ratio may not exceed 12:1.

Derivatives Financial Instruments
Contracts whose value is "derived" from interest or foreign exchange rates, or equity or commodity prices. Use of derivatives allows for the transfer, modification or reduction of current or expected risks from changes in rates and prices.

Direct Investments
Represents the investments made by the Bank directly in the investee companies.

Productivity Ratio
A measure of the efficiency with which the Bank incurs expenses to generate income on its loan operations. It is calculated as operating and administrative expenses as a percentage of net interest and other income. A lower ratio indicates improved efficiency.

General Allowance
Established by management to recognize credit losses in the existing performing loan portfolio, which have occurred as at the balance sheet date, but have not yet been specifically identified on an individual loan basis.

Hedging
A risk management technique used to insulate financial results from market, interest rate or foreign currency exchange risk (exposure) arising from normal banking operations.

Impaired Loans
Loans where, in management's opinion, there has been a deterioration of credit quality such that there is no longer reasonable assurance of the timely collection of the full amount of principal and interest.

Investment Income
Income generated from the Bank's venture capital investments, such as interest, dividends, and net realized gains on divestitures.

Master Netting Agreement
Is a standardized bilateral contract that enables trading counterparties to agree to net collateral requirements; and, in a close-out situation, settlement amounts related to underlying master trading contracts relating to sales and purchases of financial instruments. The Master Netting Agreement offsets positive balances of one transaction with negative balances of another.

Net Interest and other Income
The difference between what is earned on loan portfolio assets and securities, and what is paid on borrowings.

Net Margin
Is the net interest and other income earned by the performing loan portfolio, expressed as a percentage of the total average loan portfolio.

Performing portfolio
Loans for which there is reasonable assurance of the timely collection of principal and interest.

Permanent Impairment
Investments become permanently impaired, in management's opinion, when one or more of the following conditions apply: (i) a prolonged period during which the quoted market value of the investment is less than carrying value; (ii) suspension of trading in the investee securities; (iii) continued and severe losses that were not planned for at time of investing; (iv) liquidity or going concern problems that cannot be resolved in the immediate future; (v) material negative deviation from budget or plan. This would include not only financial data but also qualitative data about investee and all aspects of its business, e.g.: product, markets, technology, etc.

Provision for Credit Losses
A charge to income that represents an amount deemed adequate by management to fully provide for impairment in the existing loan portfolios, given the composition of the loan portfolios, the probability of default on the loans, the economic environment and the allowance for credit losses already established.

Return on Common Equity (ROE)
Net income, less preferred share dividends, expressed as a percentage of average common equity.

Revenue from Consulting Group
Fees from services provided by the Bank's national network of consultants to assess, plan, and implement result-driven, cost-effective management solutions.

Specific Allowance
Established by management to recognize credit losses in the existing loan portfolios, which have occurred and are identified on an individual loan basis, as at the balance sheet date.

Swaps
Interest rate swaps are agreements to exchange streams of interest payments; typically one at a floating rate, the other at a fixed rate, over a specified period of time, based on notional principal amounts. Cross-currency swaps are agreements to exchange payments in different currencies over pre-determined periods of time.

Write-down
To recognize the loss when the value of a venture capital investment is permanently impaired.

Other definitions in the MD&A:

> Economic Capital—(page 18)
> Environmental Risk—(page 18)
> Foreign Exchange Risk—(page 20)
> Interest Rate Risk—(page 20)
> Internal Rate of Return (IRR)—(page 15)
> Issuer/Counterparty Risk—(page 19)
> Liquidity Risk—(page 19)
> Loan Credit Risk—(page 18)
> Loan Portfolio Concentration Risk—(page 18)
> Market Risk—(page 19)
> Operational Risk—(page 20)

Ce document est aussi disponible en français.

Catalogue No. CC141-20031E
ISBN 0-662-34299-2

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Printed in Canada

BDC innovating

with clients, one on one

The Year in Review 2003

Canada

BDC

Business Development Bank of Canada
Banque de développement du Canada

Our Mission

To help create and develop Canadian small and medium-sized businesses through timely and relevant financial and consulting services.

Our Vision

To make a unique and significant contribution to the success of dynamic and innovative entrepreneurship for the benefit of all Canadians.

Our Key Services

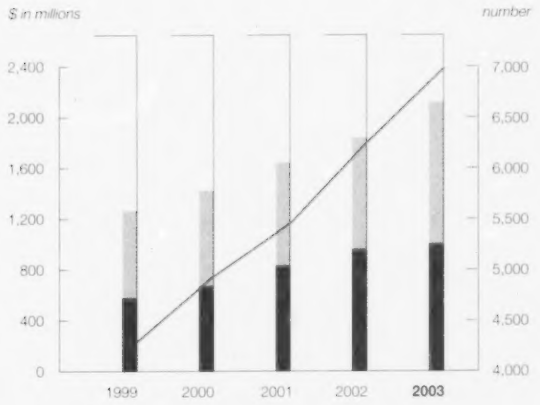
Financial services (term financing); subordinate financing; venture capital; consulting services and BDC Connex® (financial products online).

2 Highlights
4 President's Message
7 Review of Activities
24 An Environmental Message
26 Regional Highlights
46 Board of Directors
47 Officers
48 Five-year Operational and Financial Summary
50 BDC Services in Brief

Innovating
with clients, one on one. At
BDC, it's all about building real relationships
that are based on trust, confidence and the belief
that our clients can do anything they aspire to do. We
listen carefully to what entrepreneurs tell us and respond
with integrated services that are innovative and unique—
personalized loan, consulting and investment packages that
are individually designed to reflect every stage of growth.
We're also taking that extra step to stay close to each
community and make a real difference at the regional
level. We are dedicated people with a passion
for helping our clients make their
dreams a reality.

Total Financing Authorized*

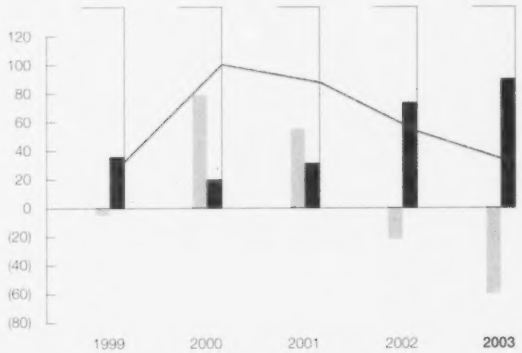
for the year ended March 31



	1999	2000	2001	2002	2003
KBIs and exporters (value)	582	672	834	961	**1,004**
Other sectors (value)	690	763	818	887	**1,121**
Total authorized (value)	1,262	1,428	1,647	1,845	**2,125**
Total authorized (number)	4,239	4,749	5,173	5,806	**6,387**

Net Income

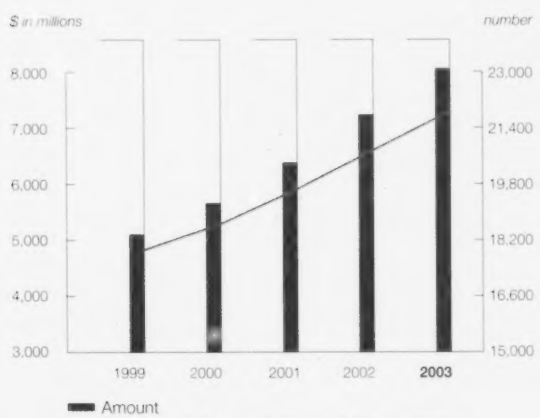
for the year ended March 31 *($ in millions)*



	1999	2000	2001	2002	2003
Loans and Consulting Group	36.9	21.1	32.1	74.7	**91.4**
Venture Capital	(4.1)	80.0	56.2	(21.0)	**(59.5)**
Total net income	32.8	101.1	88.3	53.7	**31.9**

Total Financing Committed*

as at March 31

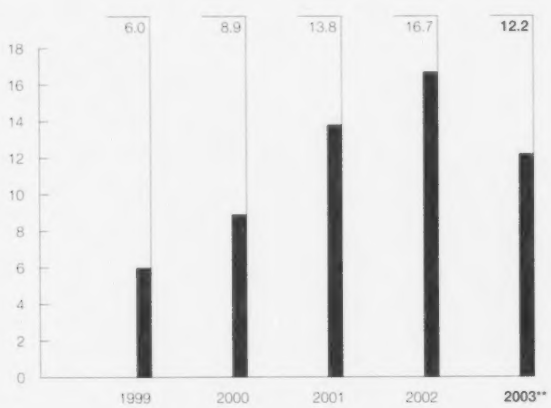


	1999	2000	2001	2002	2003
Amount	5,090	5,641	6,353	7,201	**8,026**
Number of customers	17,923	18,667	19,664	20,780	**21,897**

* Restated to exclude Global Line of Credit™ and Student Business Loans.

Preferred Dividend Declared

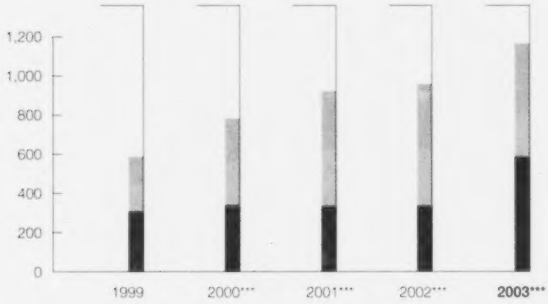
for the year ended March 31 *($ in millions)*



** In addition, based on BDC's fiscal 2003 performance, a common dividend of $0.4 million was declared after March 31, 2003 and will be paid and recorded in fiscal 2004.

Total Shareholder's Equity

as at March 31 *($ in millions)*

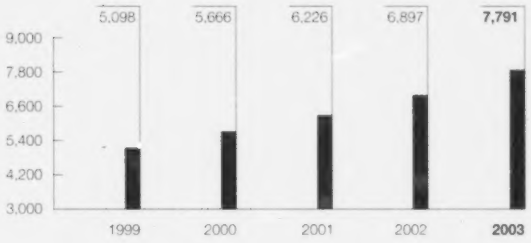


	1999	2000***	2001***	2002***	2003***
Common shares***	303.4	331.2	331.2	331.2	**586.2**
Preferred shares	150.0	230.0	295.0	295.0	**230.0**
Retained earnings	130.4	222.6	297.1	334.1	**353.8**
Total shareholder's equity	583.8	783.8	923.3	960.3	**1,170.0**

*** Includes $27.8 million of contributed surplus.

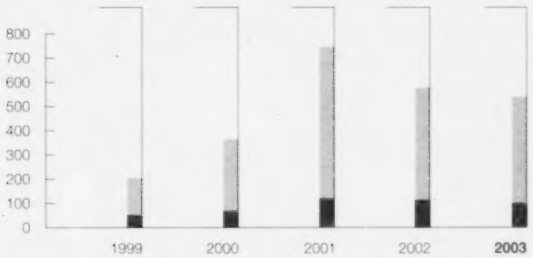
Total Assets

as at March 31 *($ in millions)*



Total Value of Venture Capital Projects Financed

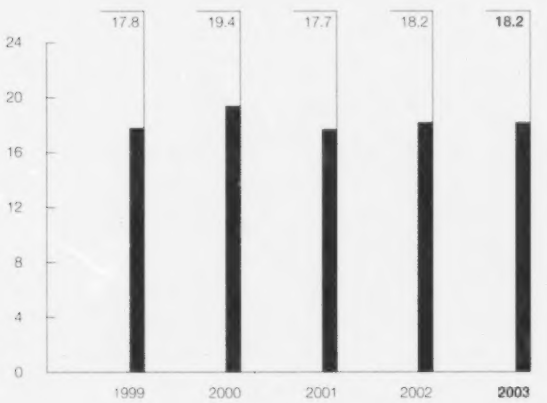
for the year ended March 31 *($ in millions)*



	1999	2000	2001	2002	2003
BDC venture capital investments authorized	42	63	114	106	**93**
Other sources of investment (estimated)	160	301	636	472	**446**
Total	202	364	750	578	**539**

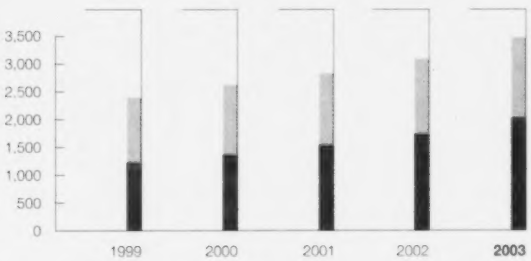
Consulting Group Revenue from Activities

for the year ended March 31 *($ in millions)*



Total Value of Lending Projects Financed*

for the year ended March 31 *($ in millions)*



	1999	2000	2001	2002	2003
BDC lending authorized	1,220	1,365	1,533	1,739	**2,032**
Other sources of financing (estimated)	1,189	1,266	1,300	1,358	**1,438**
Total	2,409	2,631	2,833	3,097	**3,470**

* Restated to exclude Global Line of Credit* and Student Business Loans.

Michel Vennat
President and Chief Executive Officer

President's Message

It was a remarkable year. Canadian entrepreneurs showed the world how small and medium-sized businesses can make a national economy shine. Canadian SMEs have become the spark plug for our economy. They are the reason Canada has taken the lead in economic performance among G-7 countries and why we have outperformed the U.S. economy over the last two years.

As I travel the country, I am witness to a surge of entrepreneurship in all regions, across all sectors of the economy. Indeed, businesses are starting and growing across the country. The business people who run them come from all walks of life and in many cases from all over the world. We should never underestimate the contribution of entrepreneurs who have recently come to this country with their own ideas about entrepreneurship. They have much to show us and we are grateful for the new perspective they bring. Without question, in the last year, the growth of small and medium-sized businesses helped Canada lead the way.

Commenting on the Bank's results is, of course, easy, compared to predicting what could happen in the coming year. A higher Canadian dollar, the unpredictable U.S. economy, the long-term effects of the war in Iraq and the recent SARS outbreak here in Canada all make for increased uncertainty. The excellent performance of our economy notwithstanding, we have reason to be cautious as we look forward.

Just over a year ago, Parliament renewed our mandate as a complementary lender and we work hard to fulfill that mandate. BDC often works in partnership with other financial institutions to help business people meet their needs. Increasingly, other financial institutions refer their clients to BDC. We see ourselves as an economic instrument that is there to fill the gaps.

Over the past year, BDC has innovated and we are confident our clients are the winners. Our objective was to personalize our banking by doing away with formulas as much as possible. We adopted a strategy of giving our people more time to spend with our clients so that we can be much better long-term partners in their businesses. To be closer to our clients, we have also decentralized operations. Ninety-five percent of our credit decisions are now made at the regional level.

BDC remains the only financial institution that has a consulting service across the country. We have rationalized our services so we are better able to show our clients how and when we think our consulting service can make a difference. We really do believe in flexible banking and tailor-made solutions. We know this will be particularly helpful to start-up companies.

We can now better understand our clients' needs and offer faster and more flexible service. Our goal is to provide entrepreneurs with the services and products that will enable them to improve their productivity. While there are many reasons innovation is more important than ever, paramount among them is the rising Canadian dollar. Improving productivity is key to adapting to the changing landscape.

Our renewed approach has led to a 91 percent customer satisfaction rating, which is the best in the industry. Our productivity ratio is an impressive 48 percent. BDC is doing a lot of things right—we had a milestone year.

I'm proud to report BDC set a new record, hitting the $2 billion mark in authorizations. To put that in perspective, it took BDC more than 50 years to reach the $1 billion mark and only 5 years to make it to $2 billion. Our Loans sector showed a profit of $94 million. Lending authorized was 17 percent higher than last year, and last year was 13 percent better than the year before. That's 33 percent more support for small and medium-sized businesses in the last two years.

The combination of the dynamic nature of our organization and the dynamic nature of our niche market—the entrepreneur—makes for an exciting mix and terrific growth potential. Today's entrepreneurs

are a special breed; they are better educated and more open to seeking opportunity globally. They see the world not as a challenge but as an opportunity and they know that low interest rates, lower taxes and freer trade give them a better chance to excel and compete globally.

The quality of our client base has remained strong. Client credit has held up well in this environment. The return on common equity from Loans and Consulting Group was a solid 16 percent, permitting us to continue to be even more active in start-ups, which is the more risky part of our business. BDC will continue to take more risk progressively. That's our mandate and we take it seriously.

BDC showed an overall profit in fiscal 2003 of $32 million and declared a dividend of $12 million to our shareholder, the Government of Canada. Obviously the bottom line would have been much better had it not been for a $59.5 million loss in Venture Capital. It was a difficult year in a difficult environment.

Technology markets suffered for a second year in a row and we had to take a lot of write-downs in the value of investments. However, despite this year's losses, our 10-year internal rate of return on total investments is 16 percent in fiscal 2003, which is still an above-average performance.

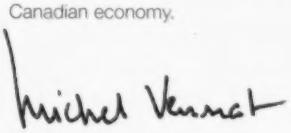
BDC, as a recognized leader in venture capital, is even more important in difficult times. That role was recognized in the February budget when the federal government allocated $190 million to BDC, earmarked for venture capital investment. BDC expects its venture capital investments to be approximately $100 million a year over the next four years.

I am encouraged that employees in all sectors of the Bank are engaged, enthusiastic and effective. Employee engagement surveys are taken very seriously at BDC. If employees are as motivated as they are, it is because they know someone is listening. Members of the senior management team deserve full credit for creating and encouraging that openness with employees. They know, as I do, that it's just good business.

Overall, we feel good about the year we've had and we are hopeful we can sustain our momentum and continue to move forward despite the economic challenges we face this year. The financial services landscape will continue to change and there will continue to be gaps. More than ever, BDC will be needed to fill those gaps.

The optimism and the enthusiasm of small and medium-sized businesses are helping Canada meet the challenges of a world economy, which has become unpredictable due to momentous international change. To be frank, a lot of things can happen and a lot of things can go wrong that could have a negative impact on our economy, but at least we know we will face an uncertain world from a position of new strength.

With the changes BDC has made in the past year it is far better equipped to respond to local and regional needs and I see more, not less, demand for our services in the future. We will be there for our clients. We will be there for the Canadian economy.



Michel Vennat
President and Chief Executive Officer

Sometimes you

need someone

to share ideas with

At BDC, we **believe** in entrepreneurs' ability to innovate and we help promote it.

Sometimes you

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At BDC, we believe in entrepreneurs' ability to innovate and we help promote it.

BDC in numbers More than 21,000 small and medium-sized Canadian businesses benefited from BDC support in fiscal 2003. Responding to their needs with innovative products and services were more than 1,250 dedicated employees working in some 80 branches from coast to coast.

More than 1,250 employees

80 branches

21,000 small and medium-sized Canadian businesses

BDC INNOVATING WITH CLIENTS, ONE ON ONE

As a complementary financial institution catering exclusively to small and medium-sized businesses, the Business Development Bank of Canada is unique in its approach to supporting Canadian entrepreneurs. It is the only financing institution in Canada that delivers both financing and consulting solutions for entrepreneurs and, as such, fulfills a vital need in the marketplace.

The proof is in the numbers. In fiscal 2003, the Bank achieved a record $2.1 billion in total financing authorized. More than 21,000 Canadian small and medium-sized businesses were served by more than 1,250 Bank employees working in a national network of more than 80 branches. BDC has provided seed, start-up, development and expansion capital to support Canadian entrepreneurs. These financing solutions were supplemented by consulting services that promote SME growth, increased productivity and innovation.

To be a catalyst for small and medium-sized business growth, BDC stays abreast of industry trends and adapts products and management solutions to meet both changing market requirements and the current economic realities.

Valued relationships

During fiscal 2003, the Bank continued to innovate by focussing on each client, one on one. BDC understands that creating a unique and valued relationship with Canadian entrepreneurs entails adding value to each and every relationship. This means taking a more integrated, specialized approach to service delivery. The Bank is going the extra mile by keeping decisions close to the client, spending more time with clients and ensuring frontline employees are specialized in handling client needs. Customized training and coaching of employees are key to understanding the needs of Canadians entrepreneurs. Five main key client experience points—visits and contacts, annual financial reviews, interest rate adjustments, privileged postponement and total repayment contact—are currently the focus of enhanced training and coaching.

The Bank has also expanded its market reach. In fiscal 2003, this involved leveraging opportunities in British Columbia where the amount authorized climbed by 25 percent and in Atlantic Canada which saw an impressive 39 percent increase compared to last year.

Satisfied customers

Our approach to valued relationships is paying off. In fiscal 2003, overall client satisfaction was up by 1 percent from 90 to 91 percent. Close attention to client relationships has helped improve this number. Ongoing independent client surveys that gather reliable and timely client feedback enable the Bank to respond quickly to perceptions about service, policies, processes and structural issues and to use this response to develop new tools and processes and to train our employees.

Flexible financing solutions

Last year, BDC identified financing to mid-market firms as an important gap in the marketplace. As a result, the Bank has established a specialized corporate finance team to support activity for the mid-market, which will capitalize on the opportunity to assist existing clients in rapid expansion foster long-term relationships.

BDC's term financing offers a range of flexible solutions to commercially viable projects. These BDC solutions come with distinct and flexible features such as bridge financing to cover planning costs, the possibility of deferred principal payments, progressive or seasonal repayment options tailored to the business' cash flow, long-term financing and a choice of floating or fixed interest rates.

Rave reviews BDC's one-on-one personalized approach to serving customers is proving to be just what they wanted. In fact, customers are increasingly satisfied with the financial services they receive from the Bank. BDC's customer satisfaction rating continues to climb, from 90 percent in 2002 to 91 percent in fiscal 2003.

BDC also set up 21 Entrepreneurship Centers to better serve smaller businesses. BDC's 21 centers focus on start-up and growing companies, particularly in the knowledge-based and manufacturing sectors.

The Bank continues to finance business start-ups in Canada with the introduction of a new customized solution called Co-Vision, which has replaced the former Micro Business Program and the Young Entrepreneur Financing Program. Co-Vision loans of up to $100,000 focus on the needs of the manufacturing, distribution, service and tourism industries and feature flexible repayment terms of up to six years with the option of postponing initial payments for up to 12 months.

To address entrepreneurs' need for working capital to develop new products and markets, BDC streamlined its offering with one flexible loan solution. Innovation financing provides financing of up to $250,000 for working capital purposes to support SME's efforts in innovation.

Subordinate financing combines features from debt financing and equity financing. The Bank complements the small number of lenders in this market by focussing its attention on fast-growing, innovative exporters, mainly in the manufacturing sector, whose financial needs cannot be met by traditional financing solutions.

The Bank has also broadened the scope of its Productivity Plus financing, extending market segments to include service industries and those that use manufacturing equipment. Here again, more flexibility is offered and an increased range of risk is allowed. Loans can include an increased percentage of financing (up to 125 percent), to cover associated costs such as employee training.

Innovative investment initiatives

In an innovative approach to promoting private equity investment, BDC recently committed $50 million to assist in the creation of a fund-of-funds initiative in Canada. This private equity fund-of-funds aggregates capital from a large number of institutional investors for investment into a diversified group of direct investment funds. These initiatives represent an attractive investment vehicle providing investors with access to highly qualified funds, which allow for diversification, sufficient administrative resources and specialized expertise.

Driving innovation

In line with the desire of Canadian small and medium-sized businesses to become more competitive at home and in international markets, in just one year BDC Consulting Group almost doubled its activities to support enhancement in operational efficiency, productivity and innovation.

A welcome addition

Clients also welcomed a new offering in BDC Consulting Group's repertoire—a program that assists them in obtaining (and in some cases, reinvesting) the Scientific Research Experimental Development tax credit to which they are entitled.

Celebrating youth entrepreneurship

The Entrepreneurship Centers often cater to young entrepreneurs, an important area of focus for BDC. In fiscal 2003, the Bank continued to support youth entrepreneurship and celebrated the creativity and business acumen of remarkable young entrepreneurs from all corners of the country at the Young Entrepreneur Awards, part of Small Business Week™. At a gala event in Vancouver, 13 entrepreneurs under the age of 30, representing each of Canada's provinces and territories, were honoured for their accomplishments with one of them also taking home the Export Achievement Award, presented by

Eye on the future Focussed on companies in the start-up or early growth phase, Co-Vision loans give entrepreneurs the flexibility they need to expand their businesses and contribute to the growth of the Canadian economy. This new offering can reach $100,000 and be repaid over a period of up to six years.

Co-Vision loans

Export Development Canada to the small business that has best opened up to international markets.

BDC Forum

An innovative aspect of the Young Entrepreneur Awards was the BDC Forum, which brought together the 2002 award winners and winners dating back to 1988 when the contest was first launched. They were joined by respected university representatives and distinguished members of the Canadian business community who have provided outstanding examples of innovation and leadership throughout their careers. Participants had the opportunity to pool their ideas and experience at training sessions facilitated by BDC Consulting Group and to network and share issues of common interest.

Small Business Week®

Small Business Week®, with *"You have genius. Let's bank on it now."* as its theme, provided entrepreneurs with opportunities to share ideas and information. More than 25,600 people participated in some 340 events that took place across the country during the week of October 20, 2002, in celebration of the entrepreneurial spirit and of the achievements of Canada's small businesses.

Growth in women-led firms

BDC has acquired a unique understanding of the women in business market. This understanding has evolved over time because the Bank strives to maintain close client relationships. The number of women-owned businesses that chose BDC as a financial partner has almost doubled since 1995, with a total lending commitment of $1.3 billion today. In short, women entrepreneurs represented 17 percent of the portfolio in 1995. Today they account for 23 percent of BDC lending customers. In our leading-edge KBI investment portfolio, 7 percent of president positions are held by women and more than a third of the critical management positions. In fact, over the last fiscal year, 18 of our 61 investee companies (30 percent) had women occupying senior positions. This clearly demonstrates that women are leading some of the most innovative new economy businesses in Canada. Recognizing that firms being launched by women are increasing at twice the national average, BDC held workshops and networking events on financial, export and growth planning for its clients.

BDC sponsored the establishment of a second chapter of the Women Presidents' Organization (WPO) in Toronto, which provides women business leaders with access to a vast network to promote their business here and abroad. BDC sponsored a luncheon in February 2003 at the WPO's Annual Conference in Washington at which Canadian members had the opportunity to meet and make business contacts with their US counterparts. The Bank also sponsored the Mount Saint Vincent University Centre for Women in Business workshop series entitled *Blueprint for Your Business' Success* as well as the Lifetime Achievement Award of the 12th Annual Rotman Canadian Women Entrepreneur of the Year Awards.

In June 2002, BDC joined the *Association féminine d'éducation et d'action sociale* and the *Réseau des SADC du Québec* (which includes the Community Futures Development Corporation and Community Business Development Corporation) in an alliance to promote entrepreneurship among women living in rural areas of Quebec. The agreement aims at providing assistance to women in setting up a business, and during the start-up and growth phases of their enterprise. It is intended to improve their access to financing and promote entrepreneurship in rural areas.

Atlantic hospitality "It was a once-in-a-lifetime experience," says Bathurst Branch Customer Service Officer, Donna Fournier, who worked with Account Manager, Lise LeBouthillier on the sponsorship committee of the 2003 Canada Winter Games, held jointly by Bathurst and Campbellton. Lise and Donna inspected the sponsorship signs at every venue and helped visitors find their way around the cities.

Review of Activities

Support for Aboriginal business growth

A specialized team handles Aboriginal Banking services and the Aboriginal Business Development Funds (ABDF), which provide loans to help Aboriginal people achieve their dream of owning a business.

BDC is committed to the Aboriginal market as evidenced by its market strategies aimed at developing entrepreneurship and creating economic development in Aboriginal communities through an integrated approach, branded "Circle of Entrepreneurship." BDC aims to provide Aboriginal entrepreneurs who choose to start their own businesses with the right tools to succeed.

With this goal in mind, BDC set up two Aboriginal Business Development Funds. One is in northwestern Ontario, where it will be delivered in partnership with the Couchiching First Nation, an organization serving seven First Nations communities. The other fund is a partnership with Apeetogosan (Métis) Development Inc., an Aboriginal Capital Corporation based in Alberta. The funds will be delivered at the grassroots level and will provide small loans for start-ups.

The Bank also organized, for the third consecutive year, the E-Spirit Aboriginal Youth Business Plan Competition for Aboriginal students in grades 10 to 13. This year, 60 schools representing 65 teams and some 250 students competed to win top prize for the best business plan. The contest also features interactive business planning, resources on the Web, access to mentors online and the opportunity to meet and network with other students from across Canada, online and in person.

BDC Consulting Group has stepped up its work with and for Aboriginal communities and businesses through an increasing number of field agreements for pilot projects with Aboriginal Business Canada and joint projects with Indian Affairs and Northern Affairs Canada.

Expanding scope and reach

It is through alliances such as these that the Bank expands the reach and scope of its solutions and reinforces its complementary role. BDC's numerous strategic alliance partners range from chartered banks and venture capital funds to government departments and Crown corporations.

BDC strategic alliances include a nearly three-year relationship with the Laurentian Bank of Canada to help small and medium-sized businesses in manufacturing, telecommunications, biotechnology and information technology. The Bank's firm partnership with the Farm Credit Corporation helps to extend services and broaden market reach. Its alliance with Canadian Heritage helps to make financing more available to the Canadian book and periodical publishing, sound recording, and film, video and multimedia production industries.

BDC entered into a partnership with the National Research Council of Canada to access and commercialize innovative research projects under development in Canada.

Online resources

In October, we re-designed the BDC Web site to make it easier to find information about how to succeed and to apply that information to projects entrepreneurs want to carry out. Developed as a link between businesses' growth projects and BDC services, www.bdc.ca provides information on every step of project development. The site includes specialized articles,

Dale Rideout, Grand Falls-Windsor > Branch Manager and Jason Roberts, President and General Manager Triton Ocean Products Limited

The BDC difference "When it comes to customer service, we outdo our competitors," says Dale Rideout. "Our clients appreciate the fact that we get out in the field and visit them on site." Among these satisfied clients is Triton Ocean Products which, with BDC support, has become the first Canadian company to bring bottled mussels to market.

interactive tools, financing and consulting solutions and relevant links. New sections of the site are dedicated to women entrepreneurs and start-ups. As well, thousands of Canadian entrepreneurs turn to the Web site to consult *Profit$* newspaper online and *e-Profit$*, the Bank's monthly electronic newsletter.

Committed to communities

BDC's presence in the community is felt in many ways. Through cash sponsorships and the donation of promotional items, its *Growing with You* community program supports local teams and sporting events for young people right across the country.

BDC employees also give generously of their personal time to community projects and activities, demonstrating the same level of energy and commitment they bring to the job every day.

Dedicated people, continuing success

There is no doubt that the Bank's success is attributed to the dedication and engagement of employees. BDC recognizes their commitment through its President's Award of Excellence program, launched in 2002, to honour those who demonstrate excellence through outstanding contributions to the key success factors of the Bank.

BDC is constantly concerned with what is on the mind of its employees. The Bank takes the pulse of the workforce through a variety of means including ongoing communication, face-to-face meetings, workshops, special assignments and surveys. Results for our fiscal 2003 survey show an increase in employee engagement, from 75 to 76 percent.

BDC will continue to work hard to ensure its workforce focusses on continuous learning and remains highly engaged, self-motivated and well-prepared to fulfill its goal of serving clients one on one. Reaching the $2.1 billion mark in total financing authorized demonstrates the team is well-positioned to continue to support our clients' growth. Looking foward, attracting and retaining talent while providing a stimulating and enriching work environment will continue to be top-of-mind for BDC as it prepares itself to reach new heights.

Sometimes you
need financing
to help you grow

At BDC, we have **business solutions** designed to support innovative projects for small and medium-sized businesses.

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Pooling resources The Bank acts as a catalyst in the venture capital industry. With the goal of improving the availability of capital in the market, BDC has committed to the creation of a private equity fund-of-funds that will bring capital from a large number of investors into a diversified group of direct investment funds.

private equity fund-of-funds

BDC's unique approach to supporting Canadian entrepreneurs combines innovative financing (including lending and venture capital) with business consulting solutions. The Bank's financial and consulting solutions packages are tailored for each stage of growth and are constantly evolving to meet changing needs.

The thousands of Canadian small businesses that were served by more than 1,250 BDC employees in fiscal 2003 benefited from solutions and services that focus on productivity and innovation—key ingredients to Canadian economic success.

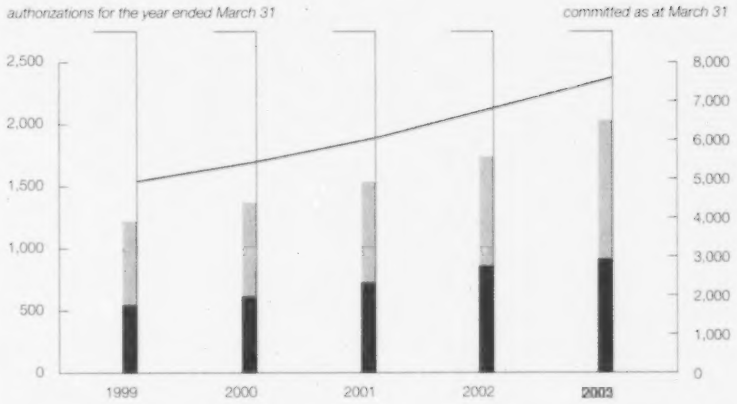
LOANS

Lending authorized reached $2,032 million in fiscal 2003, an increase of 17 percent from the previous year. Loans authorized to knowledge-based industries (KBIs) and exporters increased by $56 million in fiscal 2003, from $855 million to $911 million. Total share of lending to this new economy sector was 45 percent. As at March 31, 2003, lending committed to KBIs and exporters was at $3,215 million representing an increase of 13 percent over the last twelve months.

As at March 31, 2003, total lending committed was $7,596 million, an increase of $769 million from the previous year. Our lending customers, now at 21,733, represents an increase of 5 percent from March 31, 2002.

Total Lending Activities*

($ in millions)

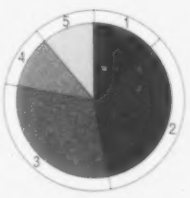


	1999	2000	2001	2002	2003
Authorized to KBIs and exporters	540	609	720	855	**911**
Authorized to other sectors	680	756	813	884	**1,121**
Total lending authorized	1,220	1,365	1,533	1,739	**2,032**
Total lending committed	4,933	5,446	6,057	6,827	**7,596**

* Restated to exclude Global Line of Credit® and Student Business Loans

Number of Lending Customers by Geographic Area

as at March 31, 2003



1 Atlantic Provinces	13%
2 Quebec	34%
3 Ontario	31%
4 Prairies, Northwest Territories and Nunavut	11%
5 British Columbia and Yukon	11%

< James E. Twiss, Chairman, Windermere House and **Lisa Hyde,** Senior Manager, Loans, Barrie

Rebuilding history When Windermere House, the last of the grand lodges in Muskoka from the Victorian era, burned to the ground in 1996, BDC helped finance the rebuilding of the beautiful, late 19th century inn. Today, the four-star facility is practically a replica of the original and remains one of the most popular seasonal resorts in Ontario.

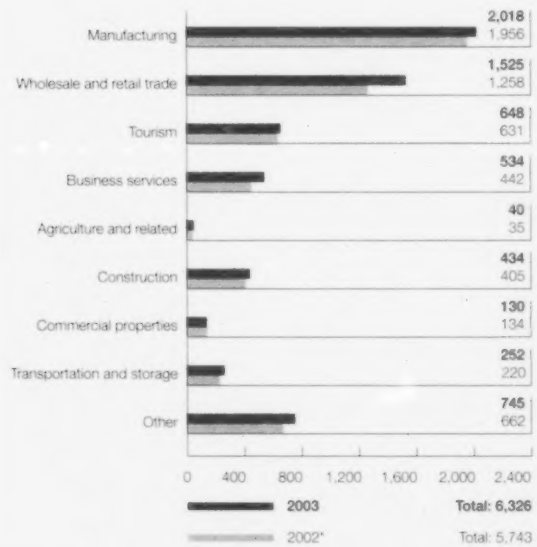
Committed to Lending Customers—Classification by Province or Territory

as at March 31

	2003 Number of customers	2003 Amount ($ in millions)	2002* Number of customers	2002* Amount ($ in millions)
Newfoundland and Labrador	**1,028**	**291**	952	240
Prince Edward Island	**142**	**45**	157	45
Nova Scotia	**660**	**174**	636	141
New Brunswick	**929**	**285**	901	256
Quebec	**7,347**	**2,956**	6,976	2,739
Ontario	**6,795**	**2,479**	6,234	2,114
Manitoba	**448**	**110**	473	107
Saskatchewan	**522**	**118**	527	117
Alberta	**1,385**	**453**	1,274	411
Northwest Territories and Nunavut	**72**	**31**	73	30
British Columbia	**2,312**	**633**	2,321	604
Yukon	**93**	**21**	101	23
Total	**21,733**	**7,596**	20,625	6,827

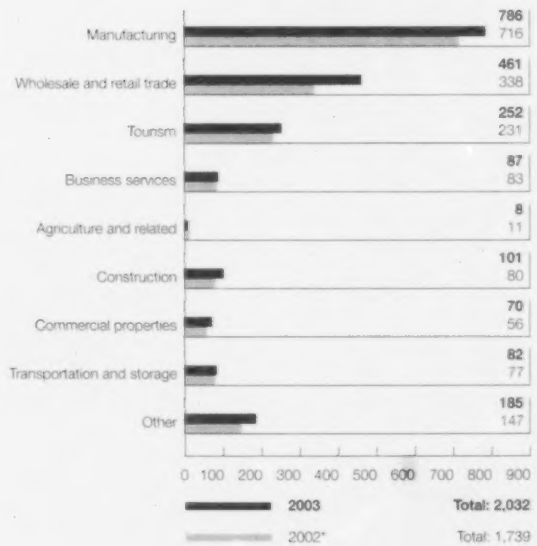
Lending Authorized—Classification by Industry

for the year ended March 31 *(in numbers)*


Manufacturing 2,018 1,956
Wholesale and retail trade 1,525 1,258
Tourism 648 631
Business services 534 442
Agriculture and related 40 35
Construction 434 405
Commercial properties 130 134
Transportation and storage 252 220
Other 745 662
0 400 800 1,200 1,600 2,000 2,400
2003 Total: 6,326
2002* Total: 5,743

Lending Authorized—Classification by Industry

for the year ended March 31 *($ in millions)*


Manufacturing 786 716
Wholesale and retail trade 461 338
Tourism 252 231
Business services 87 83
Agriculture and related 8 11
Construction 101 80
Commercial properties 70 56
Transportation and storage 82 77
Other 185 147
0 100 200 300 400 500 600 700 800 900
2003 Total: 2,032
2002* Total: 1,739

* Restated to exclude Global Line of Credit® and Student Business Loans

Going once, going twice, sold! BDC employees in Cranbrook helped the local Bankers' Association raise over $9,000 in cash and almost $700 in food at the "Annual Cranbrook Food Bank Auction." The auction of items collected by Bank representatives is both an opportunity to help the community and "also a lot of fun" says Customer Service Officer, Sonja Walker. In this photo, Sonja is accompanied by Dianna Rice.

CATERING TO SMALL BUSINESS NEEDS

BDC's 2003 results are proof positive of the Bank's commitment to small business. The volume of lending authorized increased by 17 percent to $2.0 billion this past year. Excluding the Global Line of Credit® and Student Business Loans, 69 percent of the Bank's lending transactions were for sums of $250,000 or less—and 46 percent for $100,000 or less.

Co-Vision loans of up to $100,000 focus on the needs of the manufacturing, distribution, service and tourism industries and offer the flexibility of being repaid over a period of up to six years with the option of postponing the beginning principal payments for 12 months. In fiscal 2003, BDC authorized some 200 such loans for a total of $11 million.

Productivity Plus financing

To reinforce its role in helping small businesses drive productivity, the Bank stepped up efforts to promote its Productivity Plus financing, which is designed to help sound, export-focussed manufacturing companies obtain technology-enhanced equipment. Along with 100-percent financing to purchase equipment and tooling, a small and medium-sized business can receive a further 25 percent for costs related to installing and assembling the equipment and employee training. Loans up to $5 million are available.

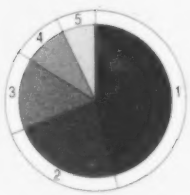
In fiscal 2003, BDC provided 350 such loans for a total of $141 million, a 66 percent increase from last year.

Innovation financing

Entrepreneurs turned to Innovation financing to help stimulate growth, finance their R&D costs, expand into new export markets and adopt quality management solutions. This product provides financing of up to $250,000 for working capital purposes. In fiscal 2003, BDC provided more than 540 such loans, a substantial increase of 26 percent from last year, for a total of $55 million.

Lending Authorized—Classification by Size

for the year ended March 31, 2003



1	$100,000 or less	46%
2	Over $100,000 to $250,000	23%
3	Over $250,000 to $500,000	15%
4	Over $500,000 to $1,000,000	9%
5	Over $1,000,000	7%

Entrepreneurship Centers

Very small businesses turn to BDC Entrepreneurship Centers for financing solutions. The centers cater exclusively to the unique needs of small business entrepreneurs, providing loans of up to $250,000.

With a mindset of service to these small businesses, BDC's 21 centers, which focus on start-up and growing companies particularly in the knowledge-based and manufacturing sectors, saw strong growth activity. Compared to the previous year, lending volume through the centers rose by 30 percent from $99 million to $129 million in fiscal 2003.

James E. Twiss, Chairman, Windermere House and **Lisa Hyde**, Senior Manager, Loans, Barrie

Rebuilding history When Windermere House, the last of the grand lodges in Muskoka from the Victorian era, burned to the ground in 1996, BDC helped finance the rebuilding of the beautiful, late 19th century inn. Today, the four-star facility is practically a replica of the original and remains one of the most popular seasonal resorts in Ontario.

Review of Activities

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as at March 31

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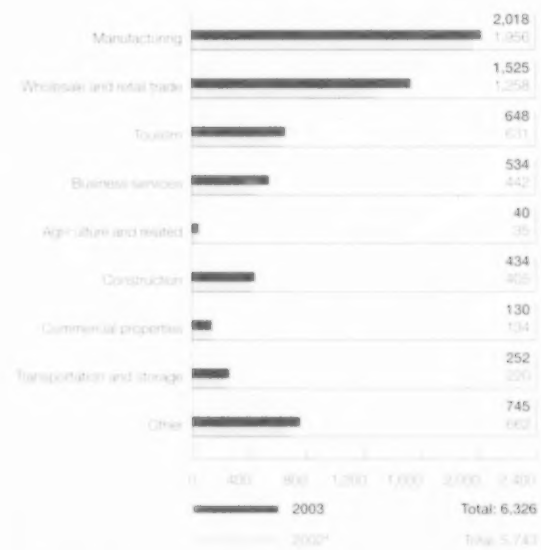
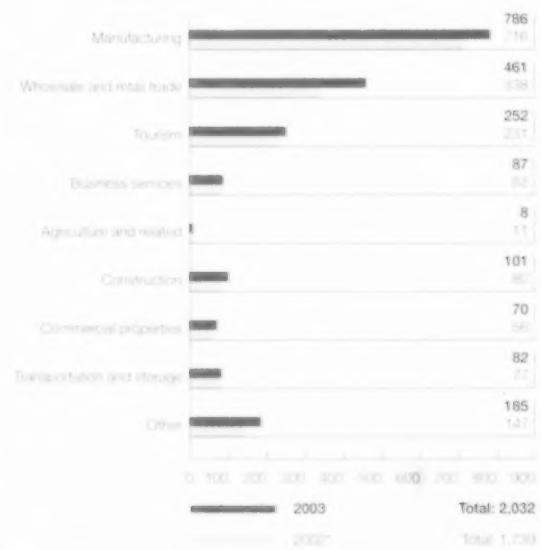
Lending Authorized—Classification by Industry

for the year ended March 31 (in numbers)



Lending Authorized—Classification by Industry

for the year ended March 31 ($ in millions)



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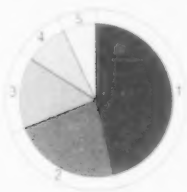
Lending Authorized—Classification by Size

for the year ended March 31, 2003



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Sometimes you

need more

than a pat on the back

At BDC, we have consulting programs that help entrepreneurs innovate.

An engaging story At BDC, fostering a culture of engagement, learning and growth translates into concrete actions: conducting an employee engagement survey, encouraging employees to develop their skills, promoting a pro-diversity environment, offering flexible benefits and providing online learning opportunities.

fostering a culture of engagement, learning and growth

The growing Aboriginal market

BDC continued to contribute in the Aboriginal market through its Aboriginal Banking Unit. In fiscal 2003, the Bank authorized $7 million in lending to support Aboriginal business. As of March 31, 2003, total lending committed to support Aboriginal business was at $37 million.

Building support for unprecedented growth

Women entrepreneurs are another BDC target market. The Bank recognizes that women-owned firms constitute a fast-growing and important segment of the small business world. In fiscal 2003, BDC made more than 1,400 lending transactions to women-owned businesses for a total amount of $363 million. In fact, as of March 31, 2003, total lending committed to women entrepreneurs reached over $1.3 billion, a 13-percent increase from a year ago. The Bank will continue to cultivate its close relationship with women entrepreneurs, whose firms are increasing at twice the national average.

SUBORDINATE FINANCING

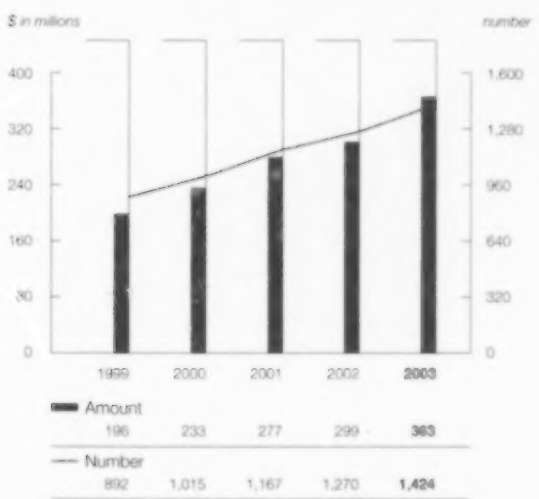
Subordinate financing combines features from debt financing and equity financing. This hybrid product helps businesses beyond the start-up phase that need support to grow. These loans are fully subordinated to senior claims of other lenders and range from $250,000 to $5 million.

BDC concentrates more on smaller first-round financing than does the rest of the industry and provides terms and conditions based on the specific needs of its customers.

In addition, the Innovation financing solution, providing loans of up to $250,000, is designed to help innovative businesses take advantage of new markets and technologies available to today's global players. This loan helps businesses adapt to ever-changing rules.

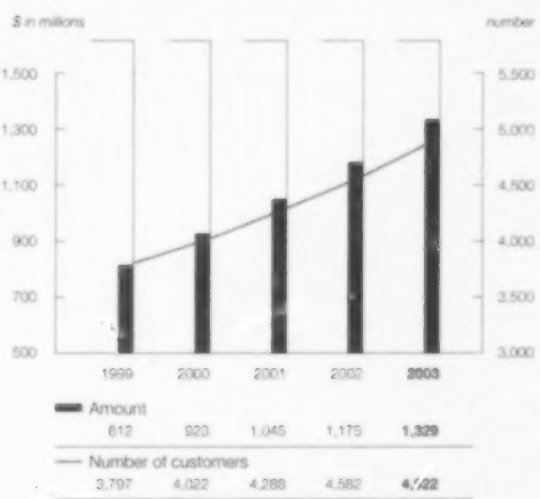
Lending Authorized—Support to Women in Businesses

for the year ended March 31



Lending Committed to Support Women in Businesses

as at March 31



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Review of Activities

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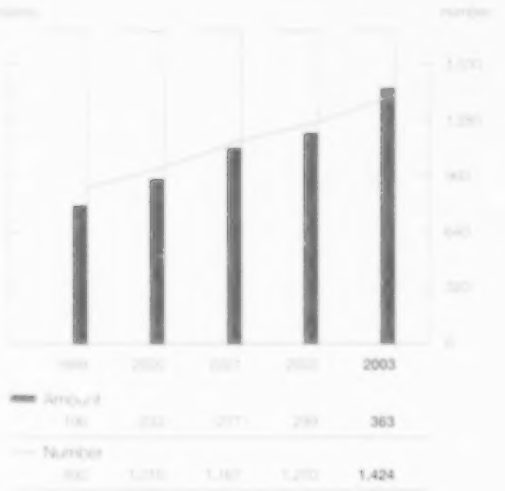
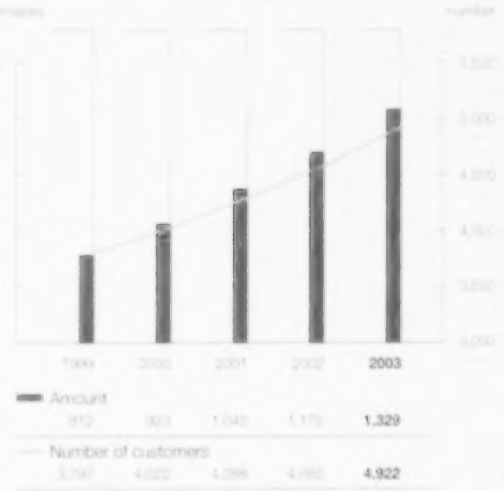
for the year ended March 31



Lending Committed to Support Women in Businesses

as at March 31



< Shirley MacDonald, Owner, Eagle Feather Gallery & Giftshop and **Rick Bennett,** Senior Manager, Loans, Victoria

Carving out a niche for Aboriginal art Eagle Feather Gallery & Giftshop is one of Victoria's First Nations' galleries that features the works of more than 50 emerging and established artists, including 20 Aboriginal artists. BDC provided the financing needed to enable the artists to create on site in an interactive, studio-style setting. Resident artists now include engravers who create gold and silver jewellery, as well as carvers who make masks, plaques and totem poles.

develop innovation strategies and invent new products to improve their chances of success. Including Innovation Loans, BDC authorized some 600 transactions, totalling $104 million in subordinate financing in fiscal 2003.

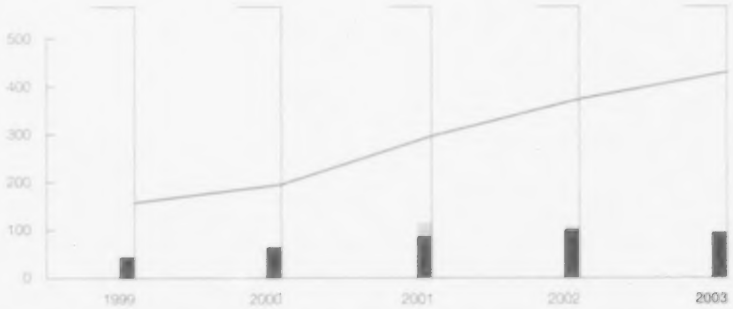
VENTURE CAPITAL

BDC's Venture Capital Group gets in on the ground floor by funding new ventures with the potential to become dominant players, in the high-tech field. The Bank supports new ventures in sectors such as medical technologies, telecommunications, e-commerce, software, electronics and energy with funding at the very early stages of development.

BDC's venture capital commitment reached $430 million at year end, compared to $374 million a year ago—an increase of 15 percent. To enhance clients' access to venture capital and to provide additional network expertise, BDC also partners with co-investors. In fiscal 2003, investee companies received an estimated additional $446 million from other investors, for a total of $539 million.

Venture Capital Activities

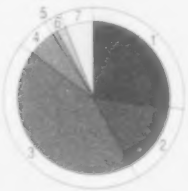
for the year ended March 31 ($ in millions)



	1999	2000	2001	2002	2003
Direct investments authorized	42	63	84	98	93
Venture funds authorized	0	0	30	8	0
Total authorized	42	63	114	106	93
Total commitment as at March 31	157	195	296	374	430

Venture Capital Customers—Classification by Industry

as at March 31, 2003



1	Biotechnology/medical/health	27%
2	Electronics	15%
3	Communications and computer-related	43%
4	Industrial	6%
5	Energy	1%
6	Other industries	2%
7	Venture funds	6%

Breaking the mold Hamilton Account Manager, Lori Stemmler enjoys showing girls that they can choose career options that are traditionally male-dominated, such as account management. That's her role as a member of the "Teen Esteem" team, which works to guide girls in junior high school through career choices and helps them to build self-esteem.

BDC continues to actively invest in KBIs in the early stages of growth from seed through expansion. During fiscal 2003, the Bank authorized 61 venture capital investments for a total of $93 million. As well, as of March 31, 2003, 99 percent of the Bank's venture capital commitment was directed to KBIs, largely in the biotechnology, medical, health, electronics, communications and computer-related industries.

In fiscal 2003, 81 percent of BDC's venture capital investments authorized were directed to companies in the seed, start-up or development stage. This reflects the Bank's commitment to financing highly promising, early-stage or exponential growth companies.

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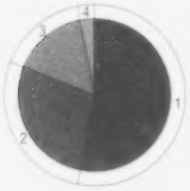
Through its national network of private sector consultants, BDC Consulting Group helps entrepreneurs assess, plan and implement winning and innovative solutions, especially in the areas of growth, quality, export and e-business.

BDC Consulting Group continued to meet the changing needs of Canadian small and medium-sized businesses in fiscal 2003 by developing and providing practical and affordable consulting services that help drive productivity and growth.

Number of Venture Capital Investments Authorized Classification by Stage of Development

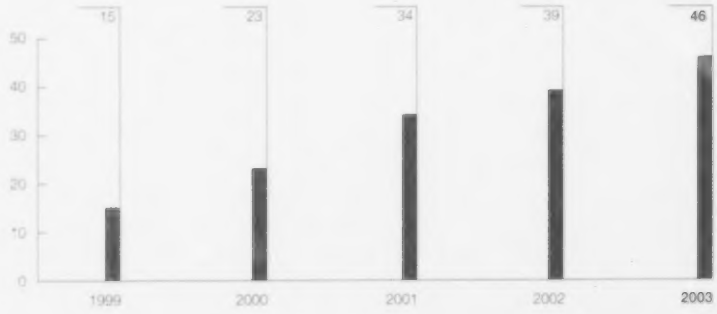
for the year ended March 31, 2003



1 Start-up/seed	53%
2 Development	28%
3 Expansion	16%
4 Turnaround	3%

Consulting Group Repeat Business

for the year ended March 31 (percentage)



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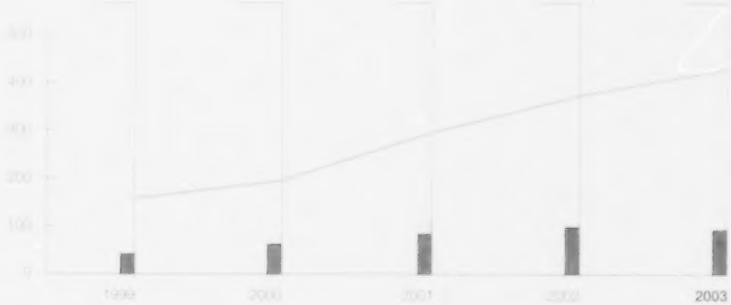
Venture Capital Activities

for the year ended March 31 ($ in millions)



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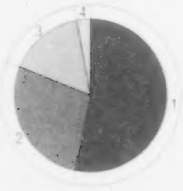

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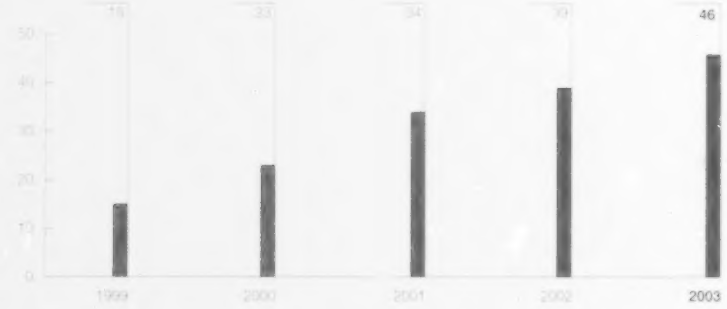


The spirit of business BDC is once again supporting the development of entrepreneurial Aboriginal youth across Canada through E-Spirit 2003, its annual national Aboriginal Youth Business Plan Competition. The competition for a winning business plan provides the young participants a unique opportunity to learn about the challenges and opportunities involved in launching and running a business.

Review of Activities

An increased emphasis on value-added services for BDC Consulting Group clients and prospects has resulted in organizational changes that now bring the decision-making closer to customers.

These changes are paying off. Last year, the Group, with its approximately 90 employees and its national network of some 500 independent consultants, was involved in 3,625 projects. The Group's revenues in fiscal 2003 were $18.2 million.

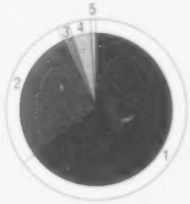
Revenues from the Group's growth line of business accounted for 65 percent of these revenues reflecting the evolving needs of small and medium-sized businesses. Quality management revenues represented 28 percent, exporting 2 percent, e-business 4 percent and other areas 1 percent. Figures for fiscal 2003 also show that BDC Consulting Group's repeat business reached 46 percent, compared to 39 percent in fiscal 2002.

Growth

The Group's Growth Potential Assessment, or GPA, which gives owners an overview of their business strengths, weaknesses and potential for growth in a variety of areas, including productivity-related issues, has proven to be one of the Group's most popular services.

Consulting Group Revenue by Activity

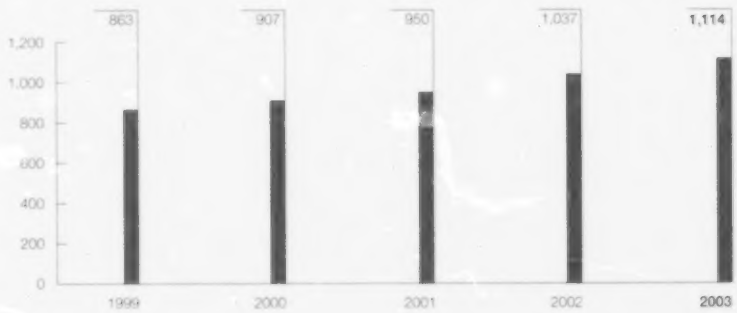
for the year ended March 31, 2003



1	Growth	65%
2	Quality	28%
3	Exporting	2%
4	e-business	4%
5	Other	1%

Total Lending Committed to Tourism Industry

as at March 31 *($ in millions)*



Laura Liu, Manager, >
BDC Consulting Group,
Vancouver and
Ernest S. Gourley, CEO and President,
Comptec International Ltd.

Tying business improvement to the bottom line Always seeking growth opportunities from market research, Laura Liu was able to see the growth potential of Comptec International Ltd., a manufacturer of injection molding that deals with large global leaders. She helped by introducing BDC operational management programs tailored to the company's evolving needs. Comptec has saved resources, translating into immediate and dramatic financial profitability.

Quality

The Group continued to provide consulting services to improve quality and ultimately help companies compete for international contracts. To date, BDC Consulting Group has provided these services to more than 2,000 companies that have become ISO certified. Adoption of the ISO 9000:2000 standard in January 2001 quickly led the Group to offer help to implement this updated version. Complementary to that service are the Group's HACCP quality solution for the agri-food sector and the ISO 14000 solution for environmental concerns.

Exports

In addition to offering its New Exporter Program (NEXPRO) and market study services, the Group reinvigorated its export line by continuing its close relationship with the Forum for International Trade Training (FITT). The agreement allows the Bank to use and adapt FITT's new export training program for BDC customers.

e-business

The Group continued to offer its e-strat program, designed to help entrepreneurs devise sound e-strategies. In addition, its e-business readiness and relevance diagnostic tools were available on the BDC Web site, allowing entrepreneurs to do their own online e-business diagnoses.

EXCELLENT PERFORMANCE IN THE TOURISM SECTOR

Tourism continues to be the third largest sector in BDC lending activity. In fiscal 2003, the Bank authorized loans totalling $252 million to tourism businesses. As of March 31, 2003, total commitments to this industry had reached $1.1 billion, a 7-percent increase from a year ago. As this industry has become more sophisticated and innovative, BDC has adapted its Tourism Investment Fund to respond to these changes.

The spirit of business BDC is once again supporting the development of entrepreneurial Aboriginal youth across Canada through E Spirit 2003, its annual National Aboriginal Youth Business Plan Competition. The competition for a winning business plan provides the young participants a unique opportunity to learn about the challenges and opportunities involved in launching and running a business.

Review of Activities

An increased emphasis on value-added services for BDC Consulting Group clients and prospects has resulted in organizational changes that now bring the decision-making closer to customers.

These changes are paying off. Last year, the Group, with its approximately 90 employees and its national network of some 500 independent consultants, was involved in 3,625 projects. The Group's revenues in fiscal 2003 were $18.2 million.

Revenues from the Group's growth line of business accounted for 65 percent of these revenues reflecting the evolving needs of small and medium-sized businesses. Quality management revenues represented 28 percent, exporting 2 percent, e-business 4 percent and other areas 1 percent. Figures for fiscal 2003 also show that BDC Consulting Group's repeat business reached 48 percent, compared to 39 percent in fiscal 2002.

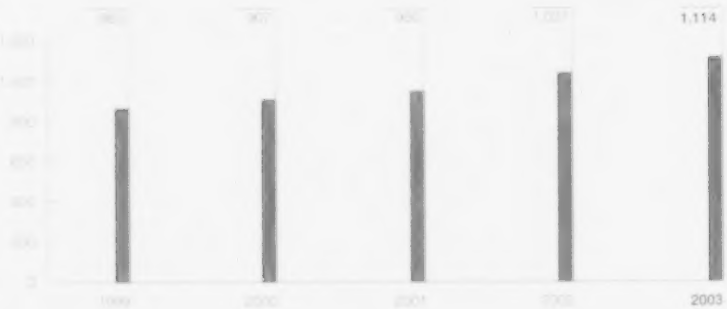
Consulting Group Revenue by Activity

for the year ended March 31, 2003

1. Growth	65%
2. Quality	28%
3. Exporting	2%
4. e-business	4%
5. Other	1%

Total Lending Committed to Tourism Industry

as at March 31 ($ millions)



Growth

The Group's Growth Potential Assessment, or GPA, which gives owners an overview of their business strengths, weaknesses and potential for growth in a variety of areas, including productivity-related issues, has proven to be one of the Group's most popular services.

Laura Liu, Manager, BDC Consulting Group, Vancouver and Ernest S. Gourley, CEO and President, Comptec International Ltd.

Tying business improvement to the bottom line Always seeking growth opportunities from market research, Laura Liu was able to see the growth potential of Comptec International Ltd., a manufacturer of injection molding that deals with large global leaders. She helped by introducing BDC operational management programs tailored to the company's evolving needs. Comptec has saved resources, translating into immediate and dramatic financial profitability.

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The human touch Joining the Rotary Club as a way to meet business contacts, Jacques Dénommée, Director, Venture Capital in Montréal, soon realized the value of its humanitarian efforts. As President of Rotary Montréal, he takes pride in the group's work to assist in the financing of the construction of a new facility for Her Street, a Montréal charitable organization providing shelter for homeless women.

> **Valérie Bornais**
Account Manager, Québec City
Bernard Juneau, General Manager
Alain Gauthier, Technical Director
Pronto Prototypes

< **Paul Casey**
Account Manager
Entrepreneurship Center, Vancouver
Nancy Balcom, Vice-President
PDG Product Design Group Inc.

> **Peter Jones**, Managing Director
Subordinate Financing, Toronto
Ruth Douglas, President
News Canada

< **Mario Thibeault**
Manager, BDC Consulting Group
Sherbrooke
André Moïse, President
Laser AMP

> **Ron Warburton**
Director, Venture Capital, Ottawa
Bruce Miller, CEO
Tarian Software

A solid foundation Business Development Manager, Jean-Claude D'Amours works tirelessly to make sure the Edmundston Regional Hospital is well-known by members of the local public and well supported by them. He donates his time and skills to the Hospital Foundation's communications con.mittee and is a member and canvasser for its endowment committee.

BDC EMPLOYEES

Surpassing the $2 billion mark in authorizations for the first time in the Bank's history was an outstanding achievement. This year's remarkable success was due to the effectiveness and commitment of BDC employees. Their dedication and expertise in helping small and medium-sized businesses realize their goals was also reflected in the encouraging results of this year's Customer Satisfaction Survey.

1 **A winning solution**

"It's about more than rates and prices," says Valérie Bornais of her relationship with Pronto Prototypes, which manufactures prototypes for new product development. Valérie worked to come up with the right financing solution for the young company, enabling it to take on a major contract. "It's also about the transfer of knowledge, finding contacts, surveying the market and providing lots of support."

2 **Bigger and better**

Paul Casey recognizes a good thing when he sees it. That includes the business plan of wheelchair manufacturer PDG Product Design Group Inc., which markets a line of highly stable wheelchairs for people with special needs. He assisted the growing company in obtaining a loan to support its marketing and working capital needs. Today, with BDC's help, the company is expanding and looking to move to larger premises. Paul now occupies the position of Regional Marketing Coach in Vancouver.

3 **A dream come true**

President of News Canada, Ruth Douglas, had an opportunity to buy the media services company from its owners. Peter Jones helped make that dream a reality by arranging both mezzanine and equity participation from BDC's Subordinate Financing Group. And, he added value by providing guidance throughout the transaction. BDC's Consulting Group assisted the company following the buy-out with SR&ED credits.

4 **Diagnosis for improvement**

An effective diagnosis of client needs is the key to his job says Mario Thibeault. That's how he was able to help local client, Laser AMP improve delivery times, identify new clients and develop new products. "We start by working on the areas where the most significant efficiency and profitability gains can be had."

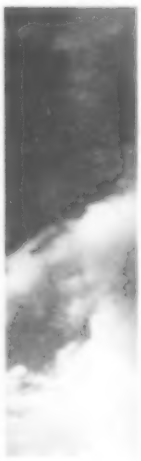
5 **Result-oriented**

Ron Warburton brings a wealth of management experience to BDC's portfolio of VC-financed companies. In February 2001, Ron managed BDC's participation as lead investor in Tarian Software, which had taken an enterprise approach to addressing the growing demand for electronic records management software. As Chairman of the Board, Ron helped Tarian expand operations into the U.S. and achieve a dominant market position, which led to Tarian's acquisition by IBM in November 2002.

Home improvement Gregory Phipps, Director, Venture Capital in Halifax, and several colleagues, including Holly Boston and Craig Williams, spent a day sprucing up the exterior of Halifax's Home of the Guardian Angel, which offers pregnancy counselling, education and support to adoptive families. The Home has special relevance for Gregory: he and his wife adopted their twin boys there in 1999.

An Environmental Message

...the Bank sees environmental management



...as more than good business practice

...it also helps build a strong future

Extra, extra! In October, BDC volunteers, including President and CEO, Michel Vennat, joined local Montréal celebrities in distributing newspapers and collecting donations on the street. It was all part of the *Raise a Reader* initiative organized by the Montréal daily newspaper *The Gazette* to raise funds for local literacy programs.

Every year, we at the Bank meet with thousands of business clients and approve the financing of thousands of projects—financing that means a business can get off the ground, innovate and grow. But did you know that each and every one of these financial agreements is subject to an environmental review? It's true.

And it's true that the Bank is seen as a corporate example of environmental responsibility. Back in the early 1990s, BDC developed its Environment Risk Policy so that credit decisions would include environmental assessments of potential business ventures. While others might have seen environmental issues as possible impediments to business, the Bank saw environmental management as just good business practice, and we continue to believe that today.

We want you to know

- Our customers must abide by environmental legislation.
- Our customers must provide details of all and any environmental concerns related to each property and business activity.
- Our managers review all site reports specific to a business.
- Our managers inspect the sites in person and are on the lookout for potential environmental risks.
- Our customers can be asked to provide environmental assessments on properties to confirm compliance with environmental legislation.
- The Bank will not extend financing if there is an environmental issue that is not or cannot be resolved by the customer.

The Bank is also actively preparing for the implementation of the Kyoto Protocol. In the coming months and years, entrepreneurs will be encouraged to operate with energy efficiency in mind. The Bank will be positioned to help entrepreneurs find innovative solutions for businesses that need to plan for the future and reduce energy costs now.

Finally, anyone who follows the Bank's progress knows that BDC has an interest in technology development. The Kyoto Protocol holds exciting possibilities for new environmental technologies to be developed and delivered. The Bank intends to play a singularly strong role supporting the development of new environmental technologies and will be formulating its strategy in the upcoming year.

We look forward to building on our environmental progress and supporting our clients as they do the same.

H & H Enterprises Limited is one of the leading excavating firms in the Atlantic Provinces. Its key company, Labrador West Quartzite, mines quartzite in Wabush, Labrador.

"Mining is a cyclical business, and BDC has always shown its versatility and flexibility with us, even during tough economic times. With our 20-year track record of success, the Bank was ready to help us finance the purchase of essential equipment used in this excavating process, which would drive our growth fast-forward. This involved transactions that were truly detail-driven and required the Bank to think quickly on its feet. As well, BDC Consulting Group provided us invaluable management advice with business forecasts, adjusting our strategies and helping us determine our future direction. BDC has always demonstrated that it understands the challenges of small and medium-sized businesses. They're with you all the way."

H & H Enterprises Limited

Roy Hunt
President
H & H Enterprises Limited
Labrador City, Newfoundland and Labrador

Mathis Instruments Ltd. has developed the world's first instrument that uses heat transfer sensors to analyze the composition of materials in the manufacturing process. The company's patented product is used by a wide range of industries, including pharmaceutical, petroleum and electronics companies.

"Our relationship with BDC began with a micro business loan, and the seed quickly grew from there. Throughout the years, the Bank has always been able to anticipate our needs and lead us to the next step of development. And I think that's what makes BDC a unique organization. The Bank introduced us to our first injection of venture capital, which has helped us sustain our growth objectives and expand into new industries. BDC Consulting Group was also instrumental in our achieving ISO 9000 certification, which brings us in line with international standards. In the end, it's the added value that counts for us, such as helping to establish the first advisory board for the company in order to rigorously assess our milestones and measure them according to set objectives. Today, Mathis has been described as a poster company for technology transfer, and certainly BDC has helped us get there."

Mathis Instruments Ltd.

Nancy Mathis
President
Mathis Instruments Ltd.
Fredericton, New Brunswick

< Roy Hunt, President, H & H Enterprises Limited, and **Paula Butt,** Account Manager, Corner Brook

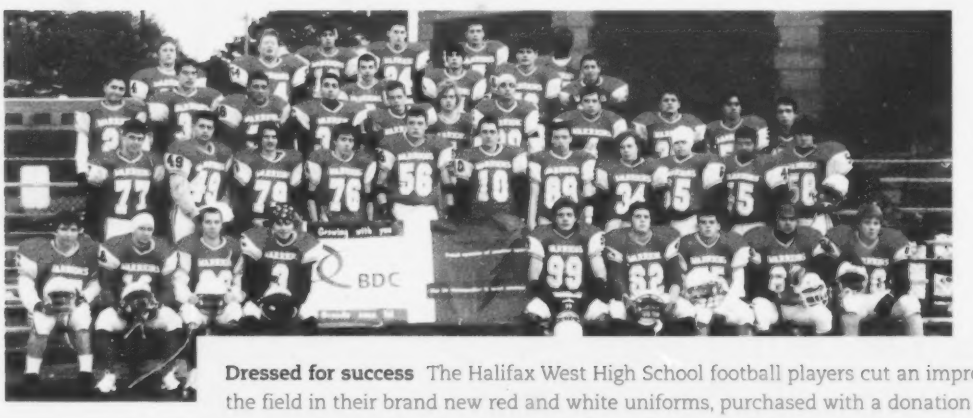
^ Ensuring quality of mined quartzite sample at H & H Enterprises Limited

The Atlantic provinces now represent the highest growth region in Canada with continued offshore oil developments boosting the economy, such as the Terra Nova and Hibernia oil fields. These same industries need innovative seed companies that provide products that range from thermal sensing in the manufacturing process to telecommunications. As well, mega-projects in mining in Newfoundland and Labrador are stimulating even further expansion in off-shoot businesses in construction, transportation and manufacturing.

Today, BDC is at the heart of this intensive business activity, providing financial products and consulting services that meet the needs of a diversity of small businesses.

Management	Branches	
Ross Miller Vice-President and District Manager, Newfoundland and Labrador	Corner Brook Grand Falls-Windsor	St. John's*
Rick Floyd Vice-President and District Manager, Nova Scotia	Bridgewater Halifax*	Sydney Truro
Claude Paré Vice-President and Area Manager New Brunswick and Prince Edward Island	Bathurst (N.B.) Charlottetown (P.E.I.) Edmundston (N.B.)	Fredericton (N.B.) Moncton* (N.B.) Saint John (N.B.)

* Location of Entrepreneurship Centers



Dressed for success The Halifax West High School football players cut an impressive figure on the field in their brand new red and white uniforms, purchased with a donation from the Bank. BDC support meant the team was well-equipped to compete in a tournament in October.

Gregory Phipps, Director, Venture Capital, Halifax > and Nancy Mathis, President, Mathis Instruments Ltd.

Using proprietary heat transfer sensors in ^ manufacturing process at Mathis Instruments Ltd.

Lending Authorized—Classification by Province

for the year ended March 31

	2003 Number	2003 Net amount ($000)	2002* Number	2002* Net amount ($000)
Newfoundland and Labrador	**322**	**$ 89,122**	261	$ 65,676
Prince Edward Island	**20**	**5,455**	24	4,155
Nova Scotia	**185**	**57,692**	134	31,923
New Brunswick	**256**	**67,278**	181	56,106
Total	**783**	**$ 219,547**	600	$ 157,860

Commitment to Lending Customers—Classification by Province

as at March 31

	2003 Number of customers	2003 Amount ($000)	2002* Number of customers	2002* Amount ($000)
Newfoundland and Labrador	**1,028**	**$ 290,692**	952	$ 240,165
Prince Edward Island	**142**	**44,815**	157	45,084
Nova Scotia	**660**	**174,014**	636	140,930
New Brunswick	**929**	**285,063**	901	255,825
Total	**2,759**	**$ 794,584**	2,646	$ 682,004

Consulting Group

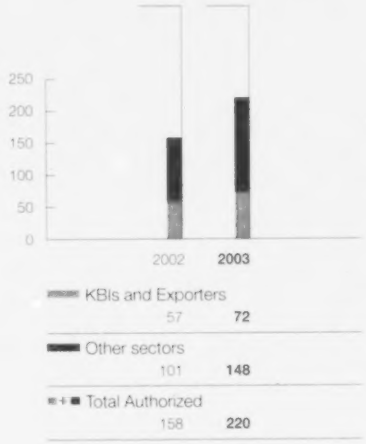
for the year ended March 31

	2003	2002
Revenue ($000)	**$ 1,336**	$ 1,502
Percentage of repeat business served	**30%**	45%

* Restated to exclude Global Line of Credit* and Student Business Loans.

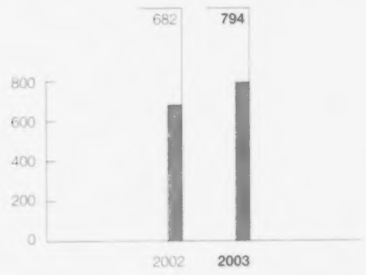
Lending Authorized

for the year ended March 31 *($ in millions)*



Commitment to Lending Customers

as at March 31 *($ in millions)*



Since 1939, Ben Deshaies inc., one of the largest family-run food wholesalers in Eastern Canada, has served the remote regions of Abitibi-Témiscamingue, James Bay and northeast Ontario, as well as Nunavik and the Nunavut territories.

"Keep your eye on the market. That has always been our philosophy. Diversifying our business has helped us flourish over the years, even during challenging times. We've learned that if you see an opportunity, you jump on it and then reap the long-term benefits. For example, in order to accommodate our growing inventory of nearly 18,000 food products, we needed to install sophisticated refrigeration equipment and expand our building space from 5,000 to 100,000 square feet. And that's precisely where BDC came in. Ultimately, the Bank's term loans enabled us to drive our sales from $56 million to $73 million last year, making us one of the top performing companies in the province. We're very proud of these achievements and delighted that BDC has been with us from the start."

Ben Deshaies inc.

Réjean Deshaies
President
Ben Deshaies inc.
Amos, Quebec

Memory Experts International is a leading-edge, multinational provider of memory, hard drive subsystems and portable storage devices for the office equipment and computer industries.

"R&D is a powerful tool for us to develop unique memory upgrade solutions. And BDC has always appreciated the fact that our company could transform creative ideas into revenues. To solidify our business, we had to build a presence in the U.S. that would ensure our credibility as a major player in the field. Today, the Bank has been truly instrumental in our growth, providing financing that reinforces our aggressive sales and marketing strategies. We can definitely see that those strategies have paid off with a revenue increase last year topping 80 percent. The Bank has also helped us finance our building expansion to accommodate our exceptional growth. There's no doubt that our future looks bright."

Memory Experts International

Guadalupe Reusing
President
Memory Experts International
Saint-Laurent, Quebec

QUEBEC

< Francis Deshaies, General Manager and Réjean Deshaies, President, Ben Deshaies inc., with **Danny Grimard,** Branch Manager, Rouyn-Noranda

^ Filling the state-of-the-art food distribution facilities at Ben Deshaies inc.

Quebec's information technology industry, especially software and multimedia, is well-positioned for new and aggressive growth. Today, the province is home to some of the world leaders in IT, such as Softimage. As well, Quebec's export of business equipment and computer hardware has grown more than 20 percent in the last three years. On another front, the province is making headlines with companies focussed on new diagnostic sciences such as proteomics and genomics.

BDC is helping these young companies fuel their growth with venture capital, as well as the counsel of experts in a diversity of portfolios.

Management	**Branches**	
Thierry Limoges Vice-President and Area Manager, Eastern Quebec	Chaudière-Appalaches Chicoutimi Quebec*	Rimouski Trois-Rivières
Guy Gervais Vice-President and Area Manager, Southern Quebec	Drummondville Longueuil*	Sherbrooke
Alain Gilbert Vice-President and Area Manager, Laval	Laval* Saint-Jérôme	Thérèse-de-Blainville
Michel Crête Vice-President and Area Manager, Montréal	De Maisonneuve Place Ville Marie*	Saint-Léonard
Patrice Bernard Vice-President and Area Manager, Western Quebec	Hull Pointe-Claire*	Rouyn-Noranda Saint-Laurent*

* Location of Entrepreneurship Centers

Tariq Qureshi, Senior Manager, Loans, Saint-Laurent, <
Patrice Sedillot, Manager, Subordinate Financing, Montréal and
Guadalupe Reusing, President, Memory Experts International

Expanding into the US market with exceptional growth ^
at Memory Experts International

Lending Authorized

for the year ended March 31

	2003 Number	2003 Net amount ($000)	2002* Number	2002* Net amount ($000)
Quebec	**2,115**	**$ 728,032**	2,004	$ 636,231

Commitment to Lending Customers

as at March 31

	2003 Number of customers	2003 Amount ($000)	2002* Number of customers	2002* Amount ($000)
Quebec	**7,347**	**$ 2,955,762**	6,976	$ 2,739,115

Consulting Group

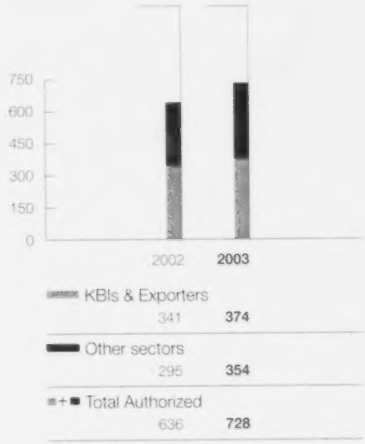
for the year ended March 31

	2003	2002
Revenue ($000)	**$ 8,666**	$ 8,477
Percentage of repeat business served	**49%**	42%

* Restated to exclude Global Line of Credit and Student Business Loans.

Lending Authorized

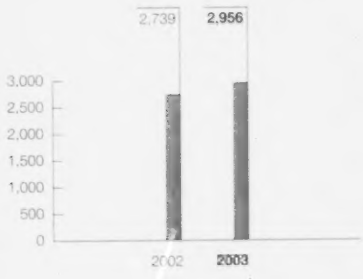
for the year ended March 31 *($ in millions)*



At cougar speed The Sherbrooke Green Cougars, proved they are as fast and strong as their namesake. With heart and determination, this hockey team of 9 and 10-year-old boys, made it to the finals at a provincial tournament in January. BDC was proud to support this hard-working team.

Commitment to Lending Customers

as at March 31 *($ in millions)*



Golden Moor Inc. manufactures and bottles therapeutic spa mud, a unique product derived from bogs and the result of nearly 30,000 years of nature and time. Today, this innovative company's product is used in many therapeutic treatments, particularly in the fields of rheumatology and dermatology.

"A great business starts with a great idea. And when you pioneer an unconventional product like ours, it's important that your bank is open-minded and able to recognize a sound business opportunity. When we wanted to go global with our healing mud, BDC's Innovation financing was paramount in helping us buy specialized equipment and ultimately double our production capacity. Today, we're exporting to more than 14 countries around the world and seeing up to 40-percent growth annually. And as the world continues to embrace preventative medicine, we anticipate even more expansion in the years to come. Throughout the whole process, BDC has definitely shared our global vision. It's crystal clear that the Bank understands the real needs of entrepreneurs."

Golden Moor Inc.

Marc Saint-Onge
President
Golden Moor Inc.
Casselman, Ontario

Bioniche Life Sciences Inc., is a leading biopharmaceutical company engaged in the research, development, production and commercialization of proprietary technologies for both the human and animal health markets.

"When you look at the evolution of a company, it's really about moving from research to reality. For example, we're now developing a pipeline of anti-cancer therapies with enormous promise in the oncology field. As well, our work is focussed on reducing the reliance on antibiotics in animal health care. Along the way, we've learned that the real test of a successful business today is financing your product from conception to market, and BDC has helped us through that vital process with loans and venture capital investments. When we first met with the Bank, it was very clear that BDC had confidence in our game-plan, which was essentially to provide all the services of a multinational but in a much smaller, more cost-effective framework. Today, we're very proud to have a sound revenue base growing from $19.3 million in 1999 to $40 million last year. This is a pivotal point in our company and a promising one indeed."

Bioniche Life Sciences Inc.

Graeme McRae
President and CEO
Bioniche Life Sciences Inc.
Belleville, Ontario

ONTARIO

< Marc Saint-Onge, President, Golden Moor Inc.,
and **Mike Webb,** Senior Manager, Loans, Ottawa
and **Richard Coderre,** Senior Partner, BDC Consulting Group, Ottawa

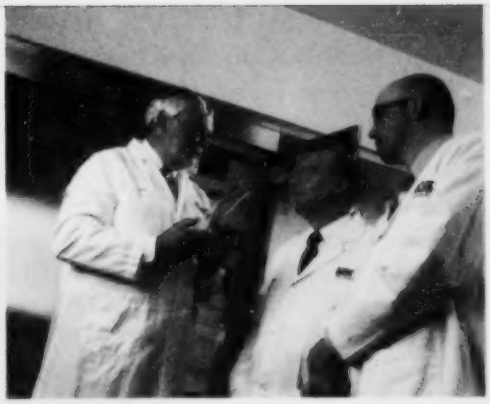
^ Creating therapeutic spa mud from nature at Golden Moor Inc.

Biotechnology is moving to the top of the business agenda in Ontario, which is one of the largest biotech hubs in North America. Both small and larger players in the field benefit from the province's unparalleled R&D infrastructure and renowned scientific community. As a result of this type of activity, Ontario's housing sector and employment markets continue to show growth, driving the construction market. Another booming business is the growing recreation and leisure industry, which is tapping into a hungry market for spas, exercise facilities and health-related services.

To help these entrepreneurs move fast-forward, BDC is ready with strategic management advice and highly specialized financing tailored to small and medium-sized business needs.

Management	Branches	
Pauline Rochefort Vice-President and Area Manager, Eastern and Northern Ontario	Kingston Ottawa*	
Craig Levangie Vice-President and District Manager, Northern Ontario	North Bay Sault Ste. Marie Sudbury	Thunder Bay Timmins
Ronald Panetta Vice-President and Area Manager, Southern Ontario	London* Stratford	Windsor
Michel Leduc Vice-President and Area Manager, Toronto	Barrie North York	Toronto* Toronto North
Brendan Cunneen Vice-President and Area Manager, Toronto East	Markham Durham	Peterborough Scarborough*
André Dusablon Vice-President and Area Manager, Mississauga	Brampton Mississauga*	
Kevin Dane Vice-President and Area Manager, Halton-Niagara	Halton* Hamilton	Kitchener St. Catharines

* Location of Entrepreneurship Centers



Graeme McRae, President and CEO, Bioniche Life Sciences Inc., >
Nick Photiades, Director, Venture Capital, Montréal and
Patrick Montpetit, Vice-President and Chief Financial Officer,
Bioniche Life Sciences Inc.

Developing a pipeline of anti-cancer therapies at Bioniche Life Sciences Inc. ^

Lending Authorized

for the year ended March 31

	2003 Number	2003 Net amount ($000)	2002* Number	2002* Net amount ($000)
Ontario	**2,017**	**$ 741,143**	1,887	$ 646,009

Commitment to Lending Customers

as at March 31

	2003 Number of customers	2003 Amount ($000)	2002* Number of customers	2002* Amount ($000)
Ontario	**6,795**	**$ 2,478,651**	6,234	$ 2,114,012

Consulting Group

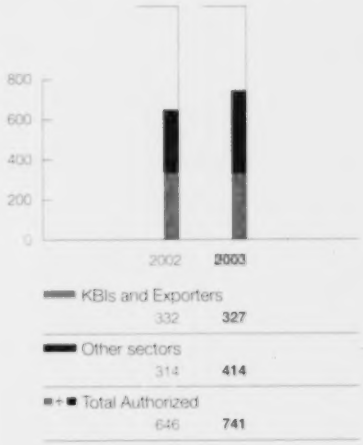
for the year ended March 31

	2003	2002
Revenue ($000)	**$ 5,250**	$ 5,526
Percentage of repeat business served	**44%**	32%

* Restated to exclude Global Line of Credit* and Student Business Loans.

Lending Authorized

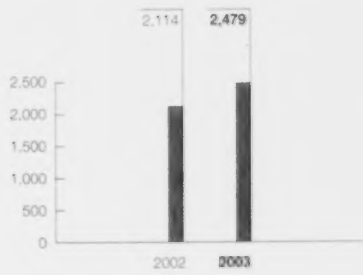
for the year ended March 31 *($ in millions)*



A show of horsepower Thousands of spectators turned out for four equestrian events organized by the Nepean National Equestrian Park and sponsored by BDC. Banners and signs, competitor numbers and volunteer shirts, all with the BDC logo, were on display as more than 1,000 competitors took part in horse trials, dressage events and the Ottawa spring Trillium Hunter Jumper Show.

Commitment to Lending Customers

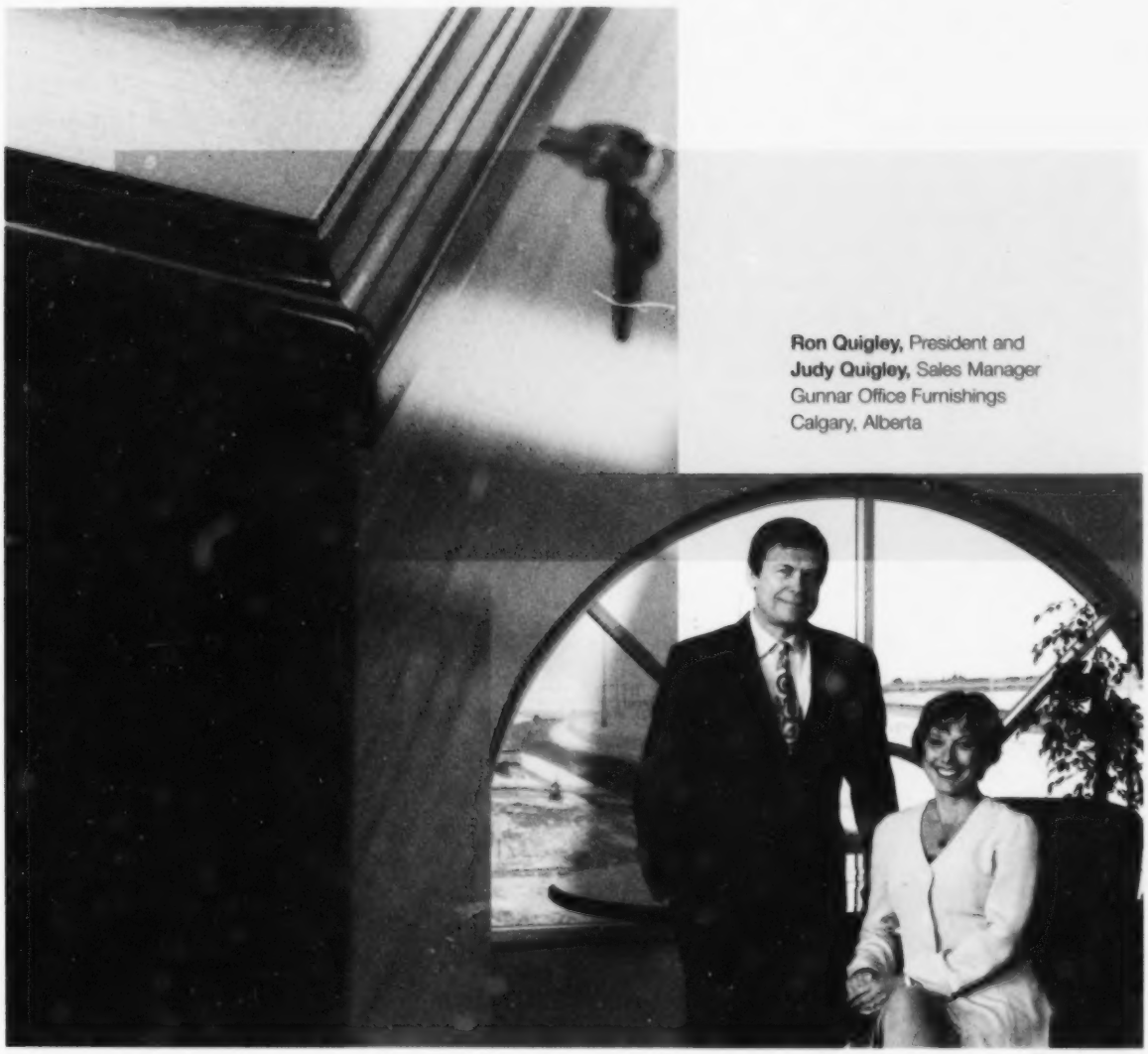
as at March 31 *($ in millions)*



Gunnar Office Furnishings specializes in the manufacture of quality furnishings for the office environment. Today, the company is one of the most dominant players in this business in Western Canada.

"To evolve with a changing market, we had to literally re-invent ourselves. We moved from manufacturing sound hoods to becoming a vertically integrated company that designs, manufactures, sells and distributes several lines of quality office furnishings. Throughout our evolution and our continued expansion, BDC helped fuel our phenomenal growth, which is 45 percent this year. The Bank was able to pinpoint the exact financing strategy that we needed to purchase land and construct a building that would give us an additional 70,000 square feet. Beyond financing, the Bank is also working with us to help us achieve ISO 14000 certification, which will affirm our company's environmental integrity. We have nothing but praise for BDC's capacity to anticipate future needs and get us results."

Gunnar Office Furnishings



Ron Quigley, President and
Judy Quigley, Sales Manager
Gunnar Office Furnishings
Calgary, Alberta

Dynatech Action Inc. is a rapidly growing distributor and marketer of toy and sport novelty items. Today, the young company has more than three thousand clients in Canada.

"We had modest beginnings in a duplex basement with just $250,000 in revenue. Six years later, we were a multi-million dollar company occupying 25,000 square feet. When we first began our relationship with BDC, the Bank saw that we were able to come within 5 percent of our sales forecasts, a real sign of our strong management. We were a young but credible company and BDC was eager to provide us with vital working capital to acquire equipment and space. Today, Dynatech Action is also working with BDC Consulting Group to develop best practices. Certainly the next item on our business agenda is to create a real international presence with our company. We're aspiring to achieve a higher volume from overseas revenues, and the prospects are now excellent."

Dynatech Action Inc.

Brad Pedersen
President
Dynatech Action Inc.
Red Deer, Alberta

< Ron Quigley, President, Gunnar Office Furnishings and **Sherolyn Dandurand,** Account Manager, Calgary South

^ Designing quality furniture in expanded premises at Gunnar Office Furnishings

The Prairies, Northwest Territories and Nunavut region is seeing steady growth in the manufacturing sector and is poised to benefit from increased exports this year. With last year's drought, it was a challenging time for small and medium-sized businesses across the Prairies. However, industries related to uranium, potash and energy are helping create new and promising business activity. In Manitoba, mining is a significant contributor to the province's economy with more than $6 billion exported annually. Over the next 20 years, diamond mines and oil and gas development in the Northwest Territories will add more than $65 billion to the GDP.

As this region begins to recover from a challenging period, BDC is well-positioned to help small and medium-sized businesses find the management strategies they need to secure their future success.

Management	Branches	
Wellington Holbrook Vice-President and Area Manager, Manitoba and Saskatchewan	Brandon (Man.) Kenora (Ont.) Regina (Sask.)	Saskatoon (Sask.) Winnipeg* (Man.)
Laura Didyk Vice-President and Area Manager, Southern Alberta	Calgary* (Alta.) Calgary North (Alta.) Calgary South (Alta.)	Cranbrook (B.C.) Lethbridge (Alta.)
Terry Quinn Vice-President and Area Manager Northern Alberta and Northwest Territories	Edmonton* (Alta.) Edmonton South (Alta.) Fort St. John (B.C.)	Grande Prairie (Alta.) Red Deer (Alta.) Yellowknife (N.W.T.)

* Location of Entrepreneurship Centers

Fit to win The Ponoka Warriors, an Edmonton volleyball team of girls aged 9, 10 and 11, proved their prowess on the courts by winning all their games this past season. Off to a strong start, this new team is supported by the Edmonton branch which supplied them with promotional items.

Lisa Christensen, Account Manager, Red Deer and > Brad Pedersen, President, Dynatech Action Inc.

Marketing top novelty sports items at Dynatech Action Inc. ^

Lending Authorized – Classification by Province and Territory

for the year ended March 31

	2003 Number	2003 Net amount ($000)	2002* Number	2002* Net amount ($000)
Manitoba	132	$ 29,374	135	$ 26,047
Saskatchewan	138	25,141	103	25,661
Alberta	496	124,326	409	116,401
Northwest Territories and Nunavut	22	8,115	15	4,943
Total	**788**	**$ 186,956**	662	$ 173,052

Commitment to Lending Customers – Classification by Province and Territory

as at March 31

	2003 Number of customers	2003 Amount ($000)	2002* Number of customers	2002* Amount ($000)
Manitoba	448	$ 110,132	473	$ 107,354
Saskatchewan	522	118,424	527	117,028
Alberta	1,385	452,972	1,274	411,305
Northwest Territories and Nunavut	72	31,284	73	29,413
Total	**2,427**	**$ 712,812**	2,347	$ 665,100

Consulting Group

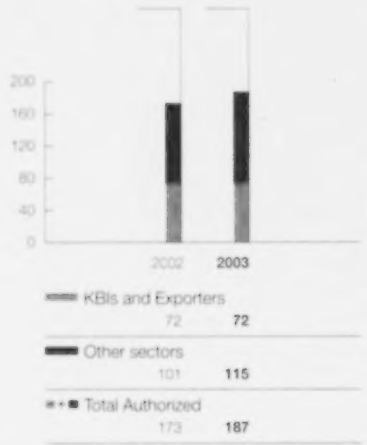
for the year ended March 31

	2003	2002
Revenue ($000)	$ 1,762	$ 1,664
Percentage of repeat business served	47%	45%

* Restated to exclude Global Line of Credit and Student Business Loans

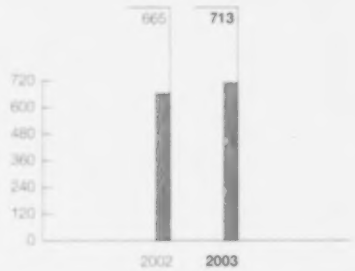
Lending Authorized

for the year ended March 31 *($ in millions)*



Commitment to Lending Customers

as at March 31 *($ in millions)*



Industrial Railcar Movers' core expertise is the manufacture and servicing of mobile railcar movers, track inspection and maintenance equipment, as well as customized railroad equipment.

"Five years ago, we made a significant shift in our business strategy from distribution to manufacturing. When we were scanning the market for financing, BDC recognized that we had already revolutionized our industry with our innovative prototypes. And our strong growth—a 19 and 12 percent increase in profit margins in the last two years respectively—has certainly been concrete proof of our success. Our strategy is rooted in the principle that the difference between ordinary and extraordinary is that little extra. BDC also demonstrated this same commitment to excellence when the Bank provided us with working capital to launch our latest prototype, PowerTrain™, a railcar mover built for strenuous yard switching. With any new product launch, timing is always of the essence. BDC truly understood our needs and went above and beyond the norm to help us deliver on time."

Industrial Railcar Movers

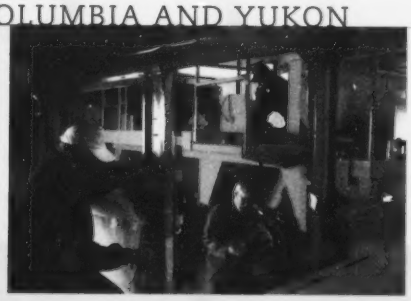
Dawn Hanna
CEO and COO
Industrial Railcar Movers
Langley, British Columbia

Greenwood Forest Products is a world-class wholesale manufacturer of high quality tongue and groove wall panelling and edge-glue laminated panels used in homes and office environments.

"Thinking ahead and thinking fast. That's the challenge of being a manufacturer in a tough market. In order for us to compete internationally, the bottom line was to be able to lower unit costs and still maintain the high quality products that customers demanded. Like most small businesses, we were looking for a sound strategy that would deliver long-term growth and profitability. BDC's Productivity Plus financing enabled us to develop a new production line for edge-glued panels, upgrade our machinery, train our people and improve our productivity significantly. Today, we're in great shape with 65 percent of our products exported to the U.S. market and a sales increase last year of more than 30 percent. BDC Consulting Group also helped us achieve ISO 9001 certification, which brings our company in line with stringent international standards. Greenwood Forest Products is now well-positioned for the future."

Greenwood Forest Products

Peter Beulah
President
Greenwood Forest Products
Penticton, British Columbia



< Dawn Hanna, CEO and COO, Industrial Railcar Movers and **Paul Casey,** Account Manager, Entrepreneurship Centers, Vancouver

^ Manufacturing and servicing customized railroad equipment at Industrial Railcar Movers.

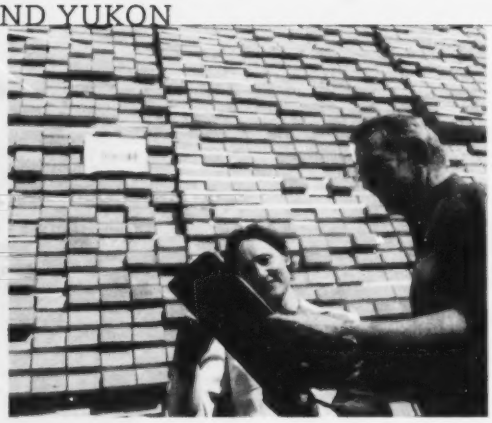
Last year, secondary manufactured wood products, such as furnishings accounted for $3 billion in the province's total exports making this one of British Columbia's fastest growing sectors. Government initiatives helped small and medium-sized companies adopt new technologies to improve their manufacturing processes. Also, despite depressed air travel in the past year, indicators rebounded strongly for food and beverage services and for the arts, entertainment and recreation sectors in B.C. Many of the companies dominating these sectors are owned by young entrepreneurs who are constantly looking for innovative ways to satisfy the consumer demand for escape and relaxation.

As B.C. shifts its focus from natural resources to new industries, BDC is there with innovative financing and consulting solutions.

Management	Branches	
Steve Zink Vice-President and Area Manager, B.C. North and Interior	Kelowna* (B.C.) Kamloops (B.C.) Prince George (B.C.)	Terrace (B.C.) Whitehorse (Y.T.) Williams Lake (B.C.)
Brian Moist Vice-President and Area Manager, Vancouver	Campbell River Langley Nanaimo North Vancouver	Surrey* Vancouver* Victoria

* Location of Entrepreneurship Centers

Kicking off in style The North Vancouver Lions Gate Soccer Association was pleased to accept BDC sports bags and water bottles for three select teams of 12 and 13-year-old boys, including this U13 Capilano team which won the 4 District League and shared the Pioneer Cup after tying their opponents in the playoffs.



Martine Hickman, Senior Manager, Loans, Kelowna and > Peter Beulah, President, Greenwood Forest Products

Supporting international growth with innovative wall ^ panelling development at Greenwood Forest Products.

Lending Authorized—Classification by Province and Territory

for the year ended March 31

	2003 Number	2003 Net amount ($000)	2002* Number	2002* Net amount ($000)
British Columbia	**610**	**$ 153,549**	572	$ 123,021
Yukon	**13**	**2,680**	18	3,231
Total	**623**	**$ 156,229**	590	$ 126,252

Commitment to Lending Customers—Classification by Province and Territory

as at March 31

	2003 Number of customers	2003 Amount ($000)	2002* Number of customers	2002* Amount ($000)
British Columbia	**2,312**	**$ 632,834**	2,321	$ 603,760
Yukon	**93**	**21,321**	101	22,957
Total	**2,405**	**$ 654,155**	2,422	$ 626,717

Consulting Group

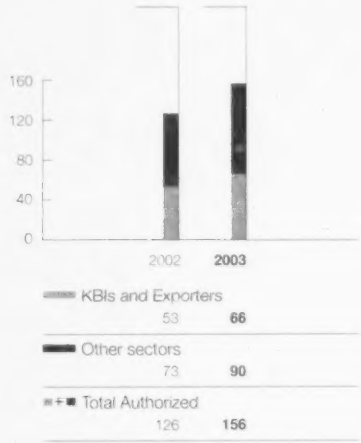
for the year ended March 31

	2003	2002
Revenue ($000)	**$ 1,207**	$ 1,020
Percentage of repeat business served	**47%**	34%

* Restated to exclude Global Line of Credit® and Student Business Loans.

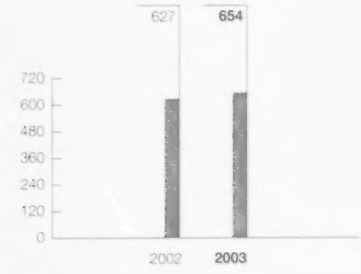
Lending Authorized

for the year ended March 31 *($ in millions)*



Commitment to Lending Customers

as at March 31 *($ in millions)*



Board of Directors

From left to right:

Cedric E. Ritchie, O.C., Chairman of the Board
Business Development Bank of Canada, Toronto, Ontario

Michel Vennat, O.C., Q.C., President and Chief Executive Officer
Business Development Bank of Canada, Montréal, Quebec

Jennifer Corson, President
Renovators Resource Inc., Halifax, Nova Scotia

Léandre Cormier, President and Owner
West-Wood Industries Ltd., Scoudouc, New Brunswick

Leo E. Cholakis, L.L.B., Managing Director
Kensington Building Ltd., Winnipeg, Manitoba

Cynthia Desmeules-Bertolin, Senior Advisor
Métis Nation of Alberta, Edmonton, Alberta

Oryssia Lennie, Deputy Minister
Western Economic Diversification, Edmonton, Alberta

Terry B. Grieve, Principal
Ventures West Management Inc., Saskatoon, Saskatchewan

Gordon J. Feeney, Company Director
Toronto, Ontario

N. Murray Edwards, President
Edco Financial Holdings Ltd., Calgary, Alberta

V. Peter Harder, Deputy Minister
Industry Canada, Ottawa, Ontario

Roslyn Kunin, Ph.D., C.M., President
Roslyn Kunin & Associates Inc., Vancouver, British Columbia

James A. Durrell, President
Capital Dodge Chrysler Jeep Ltd., Ottawa, Ontario

Barbara Stymiest, Chief Executive Officer
TSX Group, Toronto, Ontario

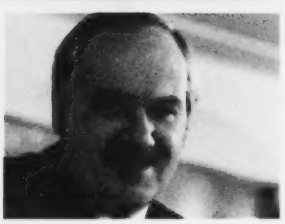
Our sincere appreciation is extended to Peter G. Jollymore and Roger Plamondon for the role they played in the development of the Bank. Their term expired in August 2002.

Officers

< **Michel Vennat,** O.C., Q.C.
President and Chief
Executive Officer

< **André Bourdeau**
Executive Vice-President
Financial Services

> **Edmée Métivier**
Executive Vice-President
Integrated Risk and
Resources Management



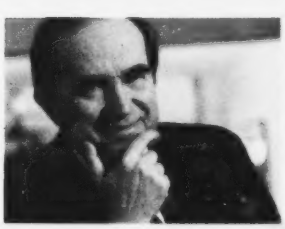
< **Michel Ré**
Executive Vice-President
Investments

< **Guy G. Beaudry**
Senior Vice-President
Corporate Affairs

> **Michel Bourret**
Senior Vice-President
Operations, Quebec
and Atlantic Region

> **Simone Desjardins**
Senior Vice-President
Operations
Ontario Region

< **Charlotte Robb**
Senior Vice-President
Operations, Prairies
and Western Region



< **Jacques Lemoine**
Senior Vice-President
Credit

> **Michel Desjardins**
Senior Vice-President
BDC Consulting Group

^ **Alan B. Marquis**
Senior Vice-President
Finance and Chief
Financial Officer

< **Richard Morris**
Vice-President
Audit and Inspection

> **Clément Albert**
Vice-President
and Treasurer

OPERATIONAL STATISTICS

for the year ended March 31 *($ in thousands)*

	2003	2002	2001	2000	1999
LOANS AND VENTURE CAPITAL					
Total financing committed*					
as at March 31					
Amount	**$ 8,025,719**	$ 7,201,137	$ 6,352,838	$ 5,641,060	$ 5,090,228
Number of customers	**21,897**	20,780	19,664	18,667	17,923
Committed to lending customers*					
as at March 31					
Amount	**$ 7,595,964**	$ 6,826,948	$ 6,056,761	$ 5,445,990	$ 4,933,237
Number of customers	**21,733**	20,625	19,533	18,568	17,833
Committed to investment customers					
as at March 31					
Amount	**$ 429,755**	$ 374,189	$ 296,077	$ 195,070	$ 156,991
Number of customers	**164**	155	131	99	90
Total financing authorized*					
Net amount	**$ 2,124,596**	$ 1,845,425	$ 1,647,032	$ 1,428,312	$ 1,261,891
Number	**6,387**	5,806	5,173	4,749	4,239
Lending authorized*					
Net amount	**$ 2,031,907**	$ 1,739,404	$ 1,532,870	$ 1,365,516	$ 1,220,084
Number	**6,326**	5,743	5,102	4,687	4,192
Investments authorized					
Net amount	**$ 92,689**	$ 106,021	$ 114,162	$ 62,796	$ 41,807
Number	**61**	63	71	62	47
FINANCIAL STATISTICS					
Net interest and other income as a percentage of average loan portfolio	**5.8%**	5.9%	5.8%	5.6%	5.7%
Provision for credit losses as a percentage of average loan portfolio	**1.5%**	1.7%	2.0%	2.0%	1.4%
Operating and administrative expenses as a percentage of average loan portfolio	**2.8%**	2.9%	3.1%	3.0%	3.2%
Loans operations productivity ratio	**47.8%**	48.5%	52.6%	54.7%	57.4%
CONSULTING GROUP					
Revenue from activities	**$ 18,221**	$ 18,189	$ 17,724	$ 19,396	$ 17,823

Restated to exclude Global Line of Credit and Student Business Loans.

Five-year Operational and Financial Summary

FINANCIAL INFORMATION

($ in thousands)

	2003	2002	2001	2000	1999
STATEMENT OF INCOME					
for the year ended March 31					
Net income (loss)					
Loans	**$ 94,507**	$ 80,458	$ 37,254	$ 25,320	$ 42,124
Venture Capital	**$ (59,485)**	$ (20,977)	$ 56,168	$ 80,039	$ (4,124)
Consulting Group	**$ (3,142)**	$ (5,748)	$ (5,100)	$ (4,254)	$ (5,216)
Net Income	**$ 31,880**	$ 53,733	$ 88,322	$ 101,105	$ 32,784
BALANCE SHEET					
as at March 31					
Loans, net of allowance for credit losses	**$ 6,288,636**	$ 5,669,513	$ 5,054,254	$ 4,608,188	$ 4,248,745
Venture capital investments, net of accumulated write-down of investments	**$ 301,945**	$ 271,064	$ 206,360	$ 145,107	$ 110,298
Total assets	**$ 7,791,359**	$ 6,897,204	$ 6,225,518	$ 5,666,333	$ 5,098,461
Total shareholder's equity	**$ 1,170,017**	$ 960,320	$ 923,304	$ 783,826	$ 583,832
Total liabilities	**$ 6,621,342**	$ 5,936,884	$ 5,302,214	$ 4,882,507	$ 4,514,629
Average loan portfolio	**$ 6,402,284**	$ 5,749,376	$ 5,194,279	$ 4,736,601	$ 4,281,607

BDC is structured to offer a variety of flexible and specialized financial products, as well as consulting services to help Canadian small and medium-sized businesses grow and successfully compete in an ever-changing global environment. The Bank's philosophy is to listen and respond to the needs of entrepreneurs with timely and relevant business solutions.

BDC FINANCIAL SERVICES

The Bank provides a wide range of term loans with flexible repayment conditions. BDC supports companies at every stage of their growth in almost every sector of the economy. The Bank is very active in the manufacturing and tourism sectors, and maintains a particular focus on knowledge-based and exporting industries. BDC also responds to the particular needs of growing target markets, such as women, Aboriginal and young entrepreneurs.

Subordinate financing of up to $250,000 is offered to growing businesses with promising market niches. This form of higher-risk financing falls between debt and equity.

BDC INVESTMENT GROUP

BDC Investment Group offers venture capital and subordinate financing. The Venture Capital team provides equity to early-stage high-technology companies that have a clear vision of their market and excellent growth potential, and are export-oriented. The Subordinate Financing team offers quasi-equity loans for cash flow financing needs of fast-growing and more mature small and medium-sized businesses.

BDC CONSULTING GROUP

Through its national network of private sector consultants, BDC Consulting Group offers small and medium-sized business entrepreneurs affordable, customized and effective solutions to enhance their management skills. It also helps entrepreneurs assess, plan and implement winning strategies, especially in the areas of growth, quality, export and e-business. BDC Consulting Group provides solutions that enable growth-minded businesses to take their place in the world economy.

BDC CONNEX™

BDC Connex™ offers its clients the entire range of BDC's financial products online. This virtual branch is readily accessible to small and medium-sized businesses wishing to be informed about BDC products and services, as well as to do business online.

Ce document est aussi disponible en français.

Catalogue No. CC141-2003-2E
ISBN 0-662-34301-8

Business Development Bank of Canada
BDC Building | 5 Place Ville Marie | Suite 400 | Montréal, Quebec H3B 5E7 | 1 888 INFO-BDC (1 888 463-6232)
www.bdc.ca

Printed in Canada